2021

Guide to

Financial Issues

for Alabama Baptist churches, treasurers and financial leaders

This booklet was made possible by gifts through the Cooperative Program.

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And he said unto them, Render therefore unto Caesar the things which be Caesar's, and unto God the things which be God's.
Luke 20:25 KJV

For because of this you also pay taxes, for they are God's ministers attending continually to this very thing. Render therefore to all their due: taxes to whom taxes are due, customs to whom customs, fear to whom fear, honor to whom honor.
Romans 13: 6-7 NKJV

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The 2021 guide to

Financial Issues

for Alabama Baptist churches,
treasurers and financial leaders

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Introduction: How to Use this Guide

Introduction: How to Use this Guide

This guide is intended to be a resource for church treasurers, financial secretaries, pastors, staff and finance committees. Each person involved in the financial responsibilities of the church will have different priorities concerning this resource.

Church treasurers and financial secretaries should begin with sections 1-3. These involve the tax reporting requirements of the church as an employer (section 1), compensation set-up for employees and some unique rules for ministers in section 2 and Charitable Contribution rules in section 3.

Finance committees as well as treasurers will be concerned about section 4 Administering Church Funds. Special attention should be given to the 12 Basic Internal Controls. These internal controls are recommended for the protection of the church and for the protection of the people who serve as stewards over the church's resources.

Committees will be interested in section 5 regarding policies. The policies section is quite extensive and not all policy suggestions will apply to all churches. Committee members can select topics that apply.

Section 1: The Church and the IRS

How does the IRS define "church"?

The term church is not specifically defined

a) The Internal Revenue Code (IRC) uses the term church but does not specifically define church.
b) The term includes conventions and associations of churches as well as integrated auxiliaries of a church. The tax code does not define the terms "convention or association of churches" either.
c) The Church Audit Procedures Act imposes detailed limitations on IRS examinations of churches, but does not cover conventions and associations of churches.

Automatic exemption for churches vs. 501(c)(3)

d) The term "tax-exempt" generally refers to the ability to receive deductible contributions. This tax-exempt status does not relate to sales taxes.
e) A church is automatically exempt as long as the church meets the IRS requirements.
f) Religious Organizations (including the Alabama Baptist Convention) generally must apply to the IRS for tax-exempt status if their gross receipts normally exceed $5,000 annually. (IRS form 1023)
g) Church exemption may come through a central/parent organization's 501(c)(3). Churches recognized by the Executive Committee of the Southern Baptist Convention as cooperating churches are covered by the Southern Baptist Convection's 501(c)(3). Associations and state conventions are not covered and must file on their own if a 501(c)(3) exemption is desired.[1]

Employer Identification Number (EIN)

h) Every tax-exempt organization, including your church, should have an Employer Identification Number (EIN), whether or not the organization has any employees.
i) There are many instances in which an EIN is necessary.
    i) When your church opens a bank account
    ii) In order to be listed as a subordinate in a group ruling, or
    iii) If your church files returns with the IRS (e.g., Forms W-2, 1099, 941, or 990-T).

[1] IRS publication 1828 and www.irs.gov/charities/charitable/article/0,,id=96099,00.html (subject to change).

What MUST a church report to the IRS?

The amount of any taxable compensation

The compensation and TIN of anyone who meets 2 requirements:

a) Performs a service for the church:
   i) Preaching, leading or performing music, secretarial etc.
   ii) Teaching, playing a piano, running the sound system, or any normally voluntary act.

b) Receives compensation from the church.
   i) Any amount of cash is taxable compensation.
   ii) Gift certificates are treated as cash.
   iii) Property is considered compensation.
   iv) Certain de minimus gifts do not count.[2] Cash and cash equivalents are never de minimus. See IRS Publication 15-B de minimus.

Climate of U.S. Charities and the IRS

Remarks of Steven T. Miller, Commissioner, Tax Exempt and Government Entities
Internal Revenue Service, October 22, 2007 http://www.irs.gov/pub/irs-tege/stm_isector_10_22_07.pdf

Concerns

1. Nominally charitable pursuits have been twisted to capitalize on gaps in the marketplace and then used to make a profit rather than to serve a public purpose. (Example: credit counseling)
2. There exist some bad actors out there: for example, schemes in which a donor claims a deduction but maintains control over the contributed assets, often using them for personal benefit. We also have what appears to be a disturbing trend, the acceptance by charities of unusual non-cash assets that are of questionable utility to the charity.
3. In some organizations, we see a sense of entitlement by donors and those in charge, arising from a lack of accountability
4. Blurring of lines between the for-profits and non-profits. This shows up across whole sectors – health care is one example, but not the only one. It also appears where non-profit organizations undertake commercial activities that mimic those carried on by the tax-paying for-profit organizations. Here we have restaurants and gift shops, gyms, etc.

It is an increasingly skeptical environment – an environment that is not as willing as before to extend the benefit of the doubt. Moreover, it is an environment in which some are questioning whether the public benefits that tax-exempt organizations are providing are commensurate with the organizations' resources and the tax subsidies they receive. In addition, increased transparency has led to some absolutely legitimate questions about certain practices and what they cost the public.

How will the IRS respond? (1) **Education and (2) increased examination.**
Underlying concerns about charities: (1)**Transparency, (2) Good governance, (3) Accountability**
"Let me wrap up. Today the tax-exempt community is under a microscope. Problems that a few years ago might have gone unnoticed now get picked up and widely broadcast. The result is that while compliance within the tax-exempt community may actually be good, it doesn't always look so good to the public, or to Congress. A slow but steady drumbeat of bad newspaper articles can hurt a reputation. Unfortunately, the IRS, by itself, cannot rescue the community from this predicament. We cannot restore your reputation."

[2] Publication 535: Gifts of nominal value. If, to promote employee goodwill, you distribute turkeys, hams, or other merchandise of nominal value to your employees at holidays, you can deduct the cost of these items as a non-wage business expense. Your deduction for de minimus gifts of food or drink are not subject to the 50% deduction limit that generally applies to meals.

IRS rules unique to churches

Churches may consider or call some employees ministers, but those employees may not be ministers for tax purposes according to the criteria of the IRS. Churches must identify employees on their payrolls who are ministers for tax purposes so they can understand and follow special payroll and reporting rules that apply to those taxpayers. **The term "minister" in the rest of this guide generally means "ministers for tax purposes".**

Ministers have a "dual tax status" respect to their church compensation.

a) They are always self-employed for Social Security purposes.
   i) Churches must **NOT** treat ministers as employees for Social Security purposes.
   ii) Churches must **NOT** withhold the employee's share of Social Security and Medicare (FICA) taxes.
b) Most ministers are employees for federal income tax reporting purposes.

A minister's compensation is exempt from income tax withholding whether a minister reports his income taxes as an employee or as self-employed.

c) This does not mean the minister is exempt from federal income taxes.
d) Ministers should use one of two procedures:
   i) Use the estimated tax procedure to pay their federal income taxes, or…
   ii) Enter into a voluntary withholding agreement with their employing church.

Many church leaders do not know that the way they pay a minister may drastically **increase the minister's taxes.**

Ministers are eligible for a housing allowance.

Housing is not required to be reported on the W-2. (It may be shown in box 14 of the W-2). Ministers must pay SECA (Social Security tax) on housing and salary.

Ministers deserve maximum tax benefits

In 1934, the 2nd Circuit Court of Appeals ruled that every citizen should pay only what the law demands.[3]

> ***"Anyone may arrange his affairs so that his taxes shall be as low as possible; he is not bound to choose that pattern which best pays the treasury. There is not even a patriotic duty to increase one's taxes. ... nobody owes any public duty to pay more than the law demands."***

Maximize tax benefits for ministers without additional expense to the church by following IRS rules. Many church leaders do not know that the way they pay a minister may drastically increase the minister's taxes. Unfortunately, many ministers may not understand these issues or may hesitate to discuss them with their church.

1. Housing allowance exclusion. See page 42.
2. Accountable reimbursement of ministry expenses. See page 38.

Complying with payroll tax reporting obligations

Churches are not exempt from federal reporting requirements. Churches that do not comply with the following 11 reporting obligations can face substantial penalties.

Obtain an Employer Identification Number (EIN) if the church does not have one.

a) Complete a Form SS-4. You may download one at www.irs.gov or order one at 800-829-4933.
b) Obtain an EIN online - http://www.irs.gov/Businesses/Small-Businesses-&-Self-Employed/Apply-for-an-Employer-Identification-Number-(EIN)-Online
c) An EIN is not a "tax exemption number," and does not relate to the church's non-profit status. It identifies the church as an employer subject to tax withholding and reporting and ensures that the church receives proper credit for payments of withheld taxes.

[3] Judge Learned Hand, *Helvering v Gregory, 69 F 2d 809, 810*, 2nd Circuit Court of Appeals, 1934.

Overview of the process to pay someone

In order to handle tax reporting properly, the following determinations must first be made:

1. Determine which workers are employees and which are contract workers. See below.
2. Determine which are ministers for tax purposes. See page 13.
3. Among employees, determine which are exempt and which are non-exempt. Ministers are typically exempt. Support staff are typically non-exempt. See page 23

Determine whether each church worker is an employee or self-employed.

The 3 Factor Test

1. Behavioral: Does the company control or have the right to control what the worker does and how the worker does his or her job?
2. Financial: Are the business aspects of the worker's job controlled by the payer? (including things like how worker is paid, whether expenses are reimbursed, who provides tools/supplies, etc.)
3. Type of Relationship: Are there written contracts or employee type benefits (i.e. pension plan, insurance, vacation pay, etc.)? Will the relationship continue and is the work performed a key aspect of the business

The IRS may use a 20-factor test. Unfortunately, there is no prescribed way of using the test or scoring it, so there is no way to predict how it will be used in an audit.

1. Is the worker required to follow an employer's instructions about when, where, and how to work?
2. Does the worker receive on-the-job training from an experienced employee?
3. Are the worker's services integrated into the employer's business operations?
4. Is the worker expected to perform the services personally, and not use a substitute?
5. Does the employer, or the worker, hire and pay any assistants?
6. Does the worker have a continuing working relationship with the employer?
7. Does the employer establish set hours of work?
8. Is the worker expected to devote full time to the employer or may he have other jobs?
9. Is the work done on the employer's premises?
10. Must the work be performed in an order or sequence prescribed by the employer?
11. Must the worker submit regular oral or written reports to the employer?
12. Is the worker paid by the hour, week or month? Or in a lump sum for the job?
13. Are the worker's business expenses reimbursed by the employer?
14. Does the employer or the worker furnish the worker's tools, supplies, and equipment?
15. Significant investment. Does the employer furnish all necessary facilities?
16. May the worker realize a profit or suffer a loss as a result of his services?
17. Does the worker work for more than one organization at a time?
18. Does the worker advertise his or her services to the general public?
19. Can the church dismiss the worker at any time? Or is there a contract to fulfill?
20. Right to resign. Can the worker end the relationship at any time without liability? (a contract to fulfill)

2) **Weber v. Commissioner** (1994) created a **seven-factor balance test**. The answer to each question is either employee or contractor. The answer chosen most often by the auditor determines the classifcation.

i) Degree of control employer has over details of work.
   (1) Employee if employer decides how work is to be done
   (2) Contractor if worker decides

ii) Which party invests in facilities used for work?
   (1) Employee if employer owns equipment & supplies
   (2) Contractor if worker owns them

iii) Opportunity the worker has for profit or loss.
   (1) Employee if work performed for one employer
   (2) Contractor if multiple employers

iv) Whether employer has right to discharge worker.
   (1) Employee if worker loses job

(2) Contractor if worker keeps job with other employers

v) Whether work is part of employer's regular business.
   (1) Employee if work is part of employer's business
   (2) Contractor if work is NOT part of employer's business

vi) The permanency of relationship.
   (1) Employee if worker performs service regularly without being called each time
   (2) Contractor if worker performs the service only when called

vii) The relationship the parties think they are creating.
   (1) Employee if both believe they work for church
   (2) Contractor if both believe they are independent of each other.

b) If in doubt, treat the worker as an employee and provide a W-2

c) For more information about how the IRS decides if a worker is an independent contractor or employee, see IRS Publication 15-A, Employer's Supplemental Tax Guide (Supplement to Publication 15 (Circular E), Employer's Tax Guide), on the IRS Web site at www.irs.gov.

Obtain the Social Security number for each worker

d) For employees, use Form W-4 AND Alabama Form A-4

e) For non-employees, use Form W-9

f) A worker who does not have a Social Security number can request one by filing Form SS-5.

Have each employee complete the four required forms plus E-Verify

g) **Form W-4** (IRS). www.irs.gov
   i) Should be renewed annually.
   ii) If an employee does not complete this form, then the church must treat the non-minister employee as "single and 0."

h) **Form A-4** (Alabama DOR) should be renewed annually. www.revenue.alabama.gov

i) **Form I-9** from the USCIS). www.uscis.gov/i-9
   i) Employees must complete this before the first day of work.
   ii) Upon request, employers must show completed forms to authorized officials of the USCIS, the Bureau of Immigration and Customs Enforcement, Department of Labor, and/or the Justice Department. Keep the I-9s for 3 years or 1 year after the employee leaves, whichever is longer.

j) **E-Verify**. See the USCIS web site at www.uscis.gov/everify. Alabama has made the process simpler for small employers at https://verify.alabama.gov.

k) **New Hire Form**. Before 5th day of work (Alabama DIR). www.labor.alabama.gov/nh

Compute each employee's taxable wages

l) The amount of taxes that a church should withhold from an employee's wages depends on:
   i) The amount of the employee's wages and
   ii) The information on the employee's Form W-4.

m) A church must determine the wages of each employee that are subject to withholding.
   i) Wages are compensation for services performed.
   ii) Pay may be in cash or in other forms. Measure pay that is not in money (such as property) by its fair market value.
   iii) Wages often include a number of items in addition to salary. See IRS Publication 15 and Publication 15A for additional information.

Determine the amount of income tax to withhold from each employee's wages.

n) Obtain a new Publication 15 (Circular E) each January. It contains updated tables for computing the amount of income taxes to withhold from employees' wages and other helpful information.

o) Perform the calculation. The most common methods are:
   i) Wage bracket method. Locate employee's taxable wages for the applicable payroll period (weekly, biweekly or monthly) on the wage bracket withholding tables in IRS Publication 15

ii) Percentage method.
(1) This method notes the percentage to calculate for wages over the standard deduction.
iii) Let your payroll software do the calculation.

Withhold Social Security and Medicare (FICA) taxes from non-minister employees' wages.

p) The combined Social Security and Medicare (FICA) tax rate is 15.3% of each employee's wages.
i) The employer and employee pay this rate equally, with each paying a tax of 7.65% of the employee's wages.
ii) This 7.65% rate has two components:
(1) Medicare hospital insurance tax of 1.45%, and
(2) "Old-age, survivor and disability" (Social Security) tax of 6.2%.
iii) There is no maximum amount of wages subject to the Medicare tax.
iv) The Social Security tax rate (6.2% for both the employer and employee) applies to an employee's wages up to but not exceeding a maximum amount ($142,800 in 2021).

q) Wages subject to Social Security and Medicare (FICA) taxes include a number of items in addition to a church salary. For example, they include:
i) Voluntary contributions (by a salary reduction agreement) to a 403(b) retirement plan for employees who are not ministers for tax purposes;
ii) Imputed cost of group term life insurance in excess of $50,000 paid by the employer for an employee; and
iii) Imputed cost of group term life insurance if the employer pays for more than $2,000 of coverage for a spouse and dependents.

Deposit the taxes withheld.

r) Churches accumulate three kinds of federal payroll taxes:
i) Income taxes withheld from employees' wages.
ii) The employees' share of Social Security and Medicare (FICA) taxes (withheld from employees' wages).
iii) The employer's share of Social Security and Medicare (FICA) taxes.

s) Deposit status is determined by total payroll taxes reported in a four quarter "lookback" period.
i) **Monthly depositor rule** -- payroll taxes of $50,000 or less.
(1) deposit withheld taxes on a monthly basis
(2) Payroll taxes along with the employer's share of FICA taxes must be deposited by the 15th day of the following month.
(3) Employers with less than a $2,500 tax liability during a quarter may skip deposit requirements and send their taxes with a Form 941-V
ii) **Semiweekly depositor rule** -- Payroll taxes of more than $50,000.
(1) Deposit withheld taxes on a semiweekly basis.
(2) For paydays falling on Wednesday, Thursday, or Friday, the payroll taxes must be deposited on or by the following Wednesday.
(3) For all other paydays, payroll taxes must be deposited on the Friday after the payday.
iii) **Electronic Federal Tax Payment System (EFTPS)**
(1) Since 2011, **EFTPS is required** for all payroll tax deposits.
(2) Smaller churches with withholding of less than $2500 for the current quarter are not required to make tax deposits and may pay the amount owed with the IRS form 941-V

Warning
Federal law specifies that any corporate officer, director, or employee who is responsible for withholding taxes and paying them over to the government may be liable for a penalty in the amount of 100% of such taxes if they are either not withheld or not paid over to the government. This penalty is of special relevance to church leaders, given the high rate of noncompliance by churches with the payroll reporting procedures.

(3) To enroll or get more information about EFTPS, call 800-555-4477 or 800-945-8400.

Employers subject to income tax withholding, Social Security and Medicare (FICA) taxes, or both, must file Form 941 quarterly.

t) Churches with only one employee (the minister) do not need to file a Form 941 if the minister has not elected voluntary withholding.

u) Issuing a Form W-2 without filing a Form 941 may trigger an IRS inquiry, but submitting a Form 941 reporting a minister's wages with no withholdings for Social Security or Medicare taxes will also raise questions.

v) A simple response will clear this up easily.

Prepare a Form W-2 for all employees, including ministers

Reduce the discrepancies between amounts reported on Forms W-2, W- 3, and 941

i) Be sure the amounts on Form W-3 are the total amounts from Forms W-2.

ii) Reconcile Form W-3 with your four quarterly Form 941 reports by comparing amounts for:

(1) Income tax withholding (Box 2);

(2) Social Security and Medicare wages (Boxes 3 and 5); and

(3) Social Security and Medicare taxes (Boxes 4 and 6).

(4) Form W-3 should include Form 941 adjustments only for the current year.

w) The amounts on the four quarterly Forms 941 for **Social Security and Medicare taxes**, including current year adjustments, should be **approximately twice the amounts on Form W-3**.

x) Amounts reported on Forms W-2, W-3, and 941 may not match for valid reasons.

i) If they do not match, you should determine that the reasons are valid.

ii) **Keep your reconciliation** in case there are inquiries from the IRS or the SSA.

Prepare a Form 1099-NEC for every person receiving non-employee compensation of $600 or more for the year

y) Issue a Form 1099-NEC to any non-employee to whom the church pays non-employee compensation of $600 or more during the year

i) Issue before February 1 of the following year.

ii) Submit a copy to the IRS by January 31 (along with a Form 1096 transmittal form).

z) Travel expense reimbursements paid to a self-employed person under an accountable reimbursement plan do not count toward the $600 figure.

aa) Backup withholding.

i) If a non-employee performs services for your church and earns at least $600 for the year, they must be asked to provide you with a Taxpayer Identification Number (SSN or EIN). If they fail or refuse to do so the church must withhold "backup withholding."

ii) The backup withholding rate is 28% and is reported on Form 945.

bb) "Churches can be penalized if the Social Security number they report on a Form 1099-NEC is incorrect, unless they have exercised 'due diligence.'" A church will be deemed to have exercised due diligence if it has self-employed persons provide their Social Security numbers on IRS Form W-9. It is a good idea for churches to present self-employed workers (e.g., guest speakers, contract laborers) with a W-9 form, and then to "backup withhold" unless the worker completes and returns the form.[4]

[4] Richard Hammar, "Church and Clergy Tax Developments in 2005" (www.ChurchLawToday.com, *Law & Tax Report*, A publication of Christianity Today International, Carol Stream, IL), 2005.

Other Requirements

Form 990 or Form 990-EZ is not required

All other charities must file a 990. However, churches and certain church-affiliated organizations are excepted from filing. – IRS https://www.irs.gov/charities-non-profits/churches-religious-organizations/filing-requirements

Form 990-T may be required

IRS Form 990-T may be required if the church has unrelated business income. Unrelated business income tax may be due if (1) the activity constitutes a trade or business, (2) the trade or business is regularly carried on and (3) the trade is not substantially related to the organization's exempt purpose. Rental income, royalties, capital gains and interest and dividends are not subject to unrelated business income tax unless financed with borrowed money. Typical examples of unrelated business income can include: buying up homes around the church and renting them to pay for the property (Neighborhood Land Rule is an exception); church operating a book store or coffee shop; any sales to the public on a regular basis; downtown church rents out its parking spaces during the week; Cellular Communication tower on church property, etc. See pages 16-17 of IRS Publication 1828 for the basics; see IRS Publication 598 for more information. The 990-T is due May 15th for calendar year filers.

Form 5578

Form 5578 Annual Certification of Racial Nondiscrimination for a Private School. This form applies to both schools and daycares. The defining criterion is that the daycare or preschool has a curriculum. The form states that the school admits the students of any race to all the rights, privileges, programs, and activities generally accorded or made available to students at that school and that the school does not discriminate on the basis of race. This form is due May 15th for those whose fiscal year is the calendar year. **Private schools are required to advertise their racial nondiscrimination in the local newspaper.**

Federal Unemployment Tax Act (FUTA)

Churches and religious organizations are not liable for FUTA tax. For further information on FUTA, see IRS Publication 517, *Social Security and Other Information for Members of the Clergy and Religious Workers*.

Alabama Unemployment Compensation (UC)

Churches and religious organizations are not liable for Alabama Unemployment Compensation. "The Alabama Unemployment Compensation Law provides that services performed in the employ of a church or convention or association of churches; or an organization that is operated primarily for religious purposes and which is operated, supervised, controlled or principally supported by a church or convention or association of churches shall not be considered covered employment.[5]

Workers' Compensation

Worker's compensation law of Alabama
Alabama Code Sections 25-5-1 through 25-5-340
Any business that has five (5) or more employees, other than contractors, is required by law to have workers' compensation coverage. The term employee includes all full or part-time employees. Ministers count as employees. (Note: self-insuring requires tremendous amounts of money and assets.)

Are churches exempt from the workers compensation law? No.
Alabama Department of Industrial Relations FAQ sheet about workers' compensation:
http://dir.alabama.gov/wc/faq.aspx
We recommend to you that you obtain Workers' Comp Insurance even if your church does not have 5 employees because if an accident occurred, the church could be liable and could be required to do what Workers' Comp Insurance would have done.

[5] For more information on religious organizations contact the Status Unit at Status Unit, 649 Monroe St. RM. 416, Montgomery, Al 36131-4200, 334.242.8830, FAX: 334.242.2067, http://dir.alabama.gov/uc/.

Many churches think that if they give their workers 1099s and treat them as contract workers, then the worker doesn't have to be carried on the Workers' Comp Insurance. This is incorrect.
First, the IRS requires that workers are properly classified. Second, many insurance companies audit the Workers' Comp coverage. Premiums are based on the (1) wages, (2) the relative danger of the profession and (3) the claims experience of the church. The company asks for both the W-2s and the 1099s during the audit. Concerning the 1099s, the auditor will ask if these workers provided proof of workers' comp insurance. If not, the church will be charged for these workers in addition to the employees.
For more information about Workers' Compensation, see the Alabama Department of Industrial Relations Workers' Comp page at http://dir.alabama.gov/wc/.

Workers in church from the perspective of tax status

Three questions to ask before classifying employees for IRS tax status:

Is a volunteer a volunteer; or not?

i) By definition, a volunteer has no compensation (no love offerings nor gifts of cash or property).
ii) If a person performs a service as a volunteer, but they are given a gift by the church in a particular quarter, they are no longer a volunteer. They are an employee for that quarter.
iii) Compensating a volunteer, even if unintentional, creates earned income from the church.

b) Is the person an employee or a contractor?

Use the Weber v. Commissioner (1994) seven factor test on page 8.

c) Is the person a minister?

Tax status of persons earning income from a church

Minister employees

i) Being classified by the IRS as a minister is not an option. It is a mandatory facts and circumstances classification by the IRS.
ii) To be classified as a minister by the IRS, a person must be both:
  (1) Credentialed as a minister
    (a) Licensed, commissioned or ordained
  (2) Serving as a minister. Knight Test (balanced) by answering yes to number one and at least two others:[6]
    (a) Ordained?
    (b) Perform worship?
    (c) Administer sacraments?
    (d) Management in church or denomination?
      (i) Administration of religious organization.
      (ii) Teach at seminary.
      (iii) Serve as a denominational leader or employee.
    (e) Considered a religious leader?
iii) Special tax provisions for ministers.
  (1) Housing exclusion – Section 107.
  (2) Self-employed status for Social Security – Section 1402(c).
  (3) Exempt from mandatory withholding.

Non-minister employees

The church is required to withhold on non-minister employees including FICA (in all cases) and Federal Income Tax and State Income Tax if the compensation is enough to require withholding, or if the employee requests additional withholding on a W-4 and A-4.

[6] *Some IRS agents still use Wingo,*

Independent contractor (non-employee)

Alabama Withholding

www.revenue.alabama.gov or call 334-242-1170
Get the booklet: ***Starting a New Business*** - https://revenue.alabama.gov/
You may call the Business Registration Unit of the Alabama Department of Revenue if you have questions about the form COM: 101 to obtain an Alabama employer identification number.

ALL BUSINESSES THAT HAVE EMPLOYEES:

1. To register for an Alabama withholding tax account number contact the Alabama Department of Revenue, Business Registration Unit, (334) 242-1170 and request Form COM:101 (Combined Registration Form), Forms A-4 (Alabama Exemption Certificates), and Alabama Withholding Tax Tables. These forms and tables can also be obtained from the department's Web site at www.revenue.alabama.gov/withholding/
2. Contact the Alabama Department of Industrial Relations to obtain requirements for Worker's Compensation Insurance at (334) 242-2868 or 1-800-528-5166 and State Unemployment Compensation tax at (334) 242-8830. Additional information can be obtained at www.labor.alabama.gov.
3. Contact city and county officials to determine if any occupational taxes are applicable.
4. Have all employees complete Forms A-4 (state) and W-4 (federal) and keep these on file.
5. Withhold income tax from your employees according to the Alabama Withholding Tax Tables and the Federal Circular E using the information on the A-4 and W-4.
6. File your Alabama Form A-1 or A-6 and remit payment for Alabama income tax withheld to the Alabama Department of Revenue. File Federal Forms 941 (Federal income tax withheld, social security and Medicare) and remit payments to the appropriate agencies. (See the appropriate forms and instructions for the due dates, penalties, etc.)
7. At the end of the year, complete Form A-3 (state) and Form W-3 (federal). These should be filed with the appropriate agency along with the proper copies of Forms W-2. Furnish each employee with a copy of the Form W-2 on or before the last day of January. Alabama form 96 corresponds to the federal form 1096.
8. If you have "contract labor," please contact the Alabama Taxpayer Service Center in your area for verification that it actually is "contract labor" and/or that withholding is required.
9. The Alabama New Hire Form may be completed online. See www.labor.alabama.gov/nh to register and to complete the form.

Types of income in church from a tax status perspective

Volunteers

a) By definition, a volunteer has no compensation (no love offerings nor gifts of cash or property).
b) Compensating a volunteer, even if unintentional, creates earned income from the church.

All employees

See page 8 for help on how to decide whom the IRS considers an employee.

Taxable compensation

Salary (include housing for non-ministers, not for ministers)

i) Bonuses
ii) Social Security offset for ordained
iii) Payment of individual health ins.
iv) Non-accountable business expenses
v) Christmas and Love Offerings
vi) Retirement Gifts
vii) Severance Pay
viii) Gifts of property (small or large)
ix) GTL Insurance over $50,000
x) Personal use of church owned Car/Van
xi) Discretionary funds
xii) Reimbursement of spouse's travel
xiii) Forgiveness of debts
xiv) Church-paid Holy Land trips
xv) Funeral/Wedding fees from church
xvi) Below market loans or property
xvii) Personal expenses paid by church
xviii) Moving Expenses paid by church
xix) **Club Dues**

Nontaxable benefits paid by the church

xx) Group Health insurance plan (§ 106)
xxi) GuideStone health insurance
xxii) Employer contributions to a Health Savings Account (HSA).
xxiii) Qualified Small Employer HRA
xxiv) Church health and accident plans medical reimbursement account qualified distributions (section 105)
(1) Cafeteria Plans (FSA – 125 Plans)
xxv) Disability insurance premiums
xxvi) Group Term Life Insurance: up to $50,000
xxvii) 403(b) paid by the church up to lesser of $58,000 or annual salary
xxviii) 403(b) Salary Reduction Agreement through the church, up to $19,500 ~~xxix)~~ or salary, whichever is less. In addition, persons over 50 may make additional catch up contributions of $6,500. Call GuideStone 888-984-8433 to calculate your Maximum Contribution.
~~xxx)~~xxix) Tuition paid by the church to the school (other than a bachelors degree)
~~xxxi)~~xxx) Church provided dependent care

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Nontaxable accountable reimbursement of business expenses

~~xxxii)~~xxxi) Transportation
~~xxxiii)~~xxxii) Travel Expenses
~~xxxiv)~~xxxiii) Entertainment Expenses
~~xxxv)~~xxxiv) Business Gifts
~~xxxvi)~~xxxv) Educational Expenses
~~xxxvii)~~xxxvi) Subscription/Books
~~xxxviii)~~xxxvii) Clothing/Laundry - uniform, clerical robe, baptismal robe, etc.
~~xxxix)~~xxxviii) Professional Dues

"Listed Property" with special rules

1. Personal computer

Highly Compensated Employees

The IRS has simplified the definition of a "highly compensated employee."
(1) A highly compensated employee was one who:
(a) Was a 5% owner of the employer at any time during the current or prior year (this definition will not apply to churches), or

(b) Had compensation for the previous year in excess of $130,000, and, if an employer elects, was in the top 20% of employees by compensation.

xl)xxxix) The following tax favored rules do not apply if there is discrimination in favor of "highly compensated employees."

(1) simplified employee pensions (SEPs);
(2) 403(b) tax sheltered annuities (churches and church organizations are exempt from nondiscrimination rule);
(3) qualified employee discounts;
(4) cafeteria plans;
(5) flexible spending arrangements;
(6) qualified tuition reductions;
(7) employer provided educational assistance; and
(8) Dependent care assistance.

Unreasonable compensation

~~xli)~~xl) A ministers salary of 110% or more of the *Layman's Salary Study Guide* or similar resource may be classified as "unreasonable compensation"

(1) You need a legal opinion from a tax attorney familiar with churches if a minister is:
  (a) Compensated in excess of $130,000.
  (b) Compensated significantly above other ministers in the same size church.
(2) Penalties for being classified by the IRS as "unreasonable" are severe.

~~xlii)~~xli) In calculating

(1) Include all compensation (e.g., bonuses, canceled debts, personal expenses paid by the church by check or credit card, personal use of church vehicles, free childcare).
(2) To fail to compute a value for such fringe benefits and include it on the minister's W-2 or contractor's 1099 form jeopardizes the church's tax-exempt status.

~~xliii)~~xlii) Churches should never make loans to clergy at less than market rates of interest.

(1) This is a prohibited inurement of the church's earnings to a private individual.
(2) Loans to clergy who are officers or directors of their church, even at commercially reasonable interest rates, are prohibited by the nonprofit corporation laws of Alabama.

Minister employees

W-2 compensation

~~xliv)~~xliii) Social Security Supplement paid to an employee is considered regular income (Box 1 of the W-2).

~~xlv)~~xliv) A minister's Social Security **CANNOT** be paid directly to the IRS by the church, even by voluntary withholding. All voluntary withholding should be deposited and credited to Federal Income Tax withheld (W-2 Box 2). The minister should note that this money can still be applied to Social Security when completing Schedule 1040SE to form 1040.

Minister Housing - Non-W-2 compensation.

~~xlvi)~~xlv) Housing allowance is not considered taxable by the IRS, but it is taxable for Social Security

Independent contractor

c) This is a non-employee to whom the church makes payments for rents and/or services.
d) Requiring a W-9 before any work is performed is the best procedure.
e) If the church makes aggregate payments (for rents and/or services) totaling $600 or for the year, a 1099-NEC must be completed.
  i) No withholding is done if the non-employee provides a Taxpayer Identification Number (TIN):
    (1) Social Security Number (SSN) or
    (2) Employer Identification Number (EIN)
  ii) You must do backup withholding (24%) if the non-employee fails to provide a TIN.
  iii) Report non-employee wages on a 1099-NEC
    (1) If you pay for merchandise and services on same bill, the 1099-NEC is for whole amount.
    (2) Accountable reimbursements are not reported on a 1099.
    (3) Rental payments from church to individual DO trigger a 1099.
    (4) The 1099 must be issued by January 31st

Medical expenses – tax treatment

The basic principle is that payment for a group healthcare plan is a non-taxable benefit; the payment or reimbursement of individual insurance is not allowed, and any money is taxable. There are some exceptions:

Type of Insurance	Tax Treatment	Notes
Group Health Insurance Plan	Non-taxable	
GuideStone insurance	Non-taxable	Even if only one employee; group plan of Southern Baptists
Medicare Parts B, D and supplement	Might not be taxable if part of a group health plan or group fewer than 2, or an ICHRA, see p. 71.	If not part of a group plan, then taxable
Payment of individual plan	taxable	Exception: QSE HRA, p. 71.
Payment of individual plan with only one FT employee	Not taxable	IRS notes exceptions of groups less than two
Reimbursement of individual plan through the govt. exchange	Taxable. Might not be taxable if part of QSE HRA, but premium tax credits reduced	Tax credit and/or subsidies are received from the government when signing up
Other information		
Health Reimbursement Arrangement	Non-taxable	Can only be offered in conjunction with a group plan; Except Qualified Small Employer HRA or ICHRA see p. 71.

A written plan or policy statement is needed to provide medical so that there is clarity. Note also that benefits are only available to employees. Therefore, if you provide a 1099 to your minister, he is not eligible for tax free benefits.

1. Premiums paid directly to the insurer by the church for a group health plan, GuideStone or groups less than 2 are excludable from income for federal tax reporting purposes. Caution about "package approach"
2. Premiums paid for <u>individual</u> plans are taxable beginning July 1, 2015 (see exceptions above)
3. If church provides employees with cash in lieu of paying their health insurance premiums, then the amount is taxable income (whether the employee elects cash or insurance).
4. For reimbursement of out of pocket expenses, you may set up a HRA, FSA, HSA, etc. See below.

"There are only four ways a church can provide for the tax-free treatment of our-of-pocket medical expenses. If your church is reimbursing medical expenses under some other arrangement, the amounts are fully taxable."

1) Medical plans to cover out-of-pocket expenses are subject to discrimination rules
2) Medical plans must be in proper written form:

a) **Cafeteria plan § 125**
Only large churches can typically justify the administrative effort and cost for a cafeteria plan (IRC 125) under which an employee may choose from a menu of different medical insurance and health-care reimbursement options and "pay" for them with before-tax dollars by taking a reduced salary.

b) **Health reimbursement arrangement (HRA), § 105**
Under an HRA (IRC 105), a church may reimburse medical expenses up to a maximum dollar amount established by the church. HRAs do not provide a salary reduction election. Requires group health plan

c) **Flexible spending account (FSA) § 125**
An FSA (IRC 125) may be established for the reimbursement of out-of-pocket medical expenses. It allows an employee to pre-fund medical and dental expenses in pre-tax dollars using salary reduction

d) **Health Savings Account (HSA) § 223**
Churches can provide high-deductible health insurance and make tax-excludable contributions to an employee's HSA (IRC 223). The HSA funds provide the money to cover the employee's out of pocket medical expenses. Requires qualifying high deductible group health plan.

Is It Taxable?

"Everything is taxable unless the Internal Revenue Code says that it isn't." Frank Sommerville

Type	Taxable?	Limited $?	Written Plan Required?	Comments
Salary	Yes			
Love offerings & bonus	Yes			
Severance	Yes			
Social Security Offset	Yes			
Gift Cards	Yes			
Payment of personal expenses	Yes			
Forgiveness of debt	Yes			
Imputed interest of below market loan	Yes			Yes, if loan is more than $10,000. Note: Alabama law forbids loans to officers
Club dues	Yes			
Professional organization dues	No			
Pastor discretionary fund	Yes			Taxable unless completely accountable
Housing Allowance (for Minister)	No		Documentation required	Is taxable for Self-Employment Tax
Reimbursements				
Non-accountable car allowance	Yes			
Reimbursements of business expense from salary reduction	Yes			
Accountable Reimbursement Plan	No		No, but recommended	Must follow IRS rules, See Compensation Planning Guide, page 7
Mission trip	No			No significant element pleasure or vacation
Holy Land Trip or other trip	Yes			
Spouse Travel	Yes			Taxable unless spouse has business purpose to go
Cell phone	No			Primarily business use
Tuition assistance plan	No	Yes	Yes	Must be equally available to all FT employees
Tuition assistance to one employee for bachelors	Yes			
Continuing education reimbursed as business expense	No			
Graduate level education as accountable reimbursement of business expense	No			
Moving-paid to moving company	Yes			included on W-2
Moving expense, qualifying, reimbursed	Yes			Included on W-2

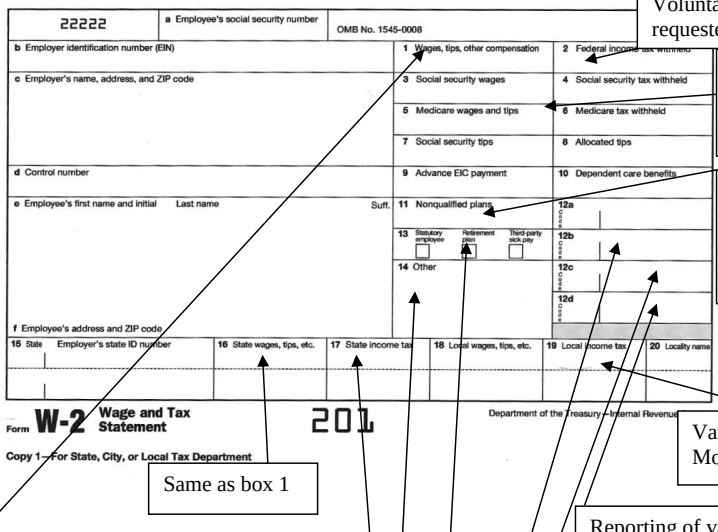
Type	Taxable?	Limited $?	Written Plan Required?	Comments
Moving expense reimbursed, non-qualifying	Yes			Included on ~~box 1 of~~ W-2
Benefits				
Group Health Insurance and GuideStone health insurance	No			Must be employer benefit, not part of package approach
Health Reimbursements Arrangement	No, if with a group plan or a Qualified Small Employer HRA		Yes	Must be available to all employees working 30 hrs per week or more. Requires group health plan or QSE HRA
Group term life insurance	No	Yes		
Disability Insurance	No			As an employer benefit
Dental/Vision Insurance	No			
Employer contributions to retirement plan	No	Yes		Cannot exceed taxable income or $58k whichever is less
Employee contributions to retirement plan	No	Yes		Not taxable unless Roth. Non minister contributions subject to FICA
IRA	Yes			Taxable, then deductible as employee completes IRS 1040
Dependent Care assistance	No	Yes	Yes	Must be equally available to all employees
Adoption Assistance	No	Yes	Yes	Must be equally available to all employees
Tuition reduction at church school	No		Yes	Only available to church school employees

Top ten tax mistakes made by churches[7]

1) Improperly classifying employees as self-employed (independent contractors).
2) Failing to furnish a Form W-2 to each employee (including ministers) and/or a Form 1099-NEC to certain non-employees.
3) Failing to include taxable fringe benefits (such as non-accountable expense reimbursements, social security supplements and special occasion gifts) as wages on Form W-2.
4) Including the ministers housing allowance in wages on Form W-2, box 1.
5) Failing to offer church employees available nontaxable fringe benefits.
6) Failing to provide church employees with an accountable expense reimbursement plan.
7) Funding an accountable reimbursement plan from employees' compensation.
8) Providing contribution receipts to members who donate their services to the church.
9) Providing contribution receipts for donations designated to other individuals without proper congregational control.
10) Failure by churches that operate, supervise or control a private school to timely file an annual Certificate Racial Nondiscrimination (Form 5578).

[7] Richard Hammar, www.ChurchLawToday.com, 2005.

How to complete a minister's W-2



Voluntary withholding as requested on the W-4

Boxes 3-8 are left blank. Do not enter zeros.

Leave box 11 blank unless your CPA or retirement planner tells you to use it.

Varies by city and county. Most can leave blank

Same as box 1

Salary (no housing)
Bonuses
Social Security offset paid by church
Non-accountable business expenses
Christmas and special love offerings
Retirement Gifts
Gifts of property (small or large)
GTL Insurance over $50,000
Personal use of church owned car/van
Discretionary funds
Reimbursement of spouse travel
Forgiveness of debt
Church paid Holy Land Trip
Funeral/Wedding fees from church
Below market loans or property
Payment of personal expenses
Payment of moving expense

Reporting of value of health care. Box 12 with code DD. Note: not taxable. Only required on W-2 for 250 or more employees

Taxable cost of group-term life insurance over $50,000. Use code "C." See IRS Publication 15-B, page 12 for calculation.

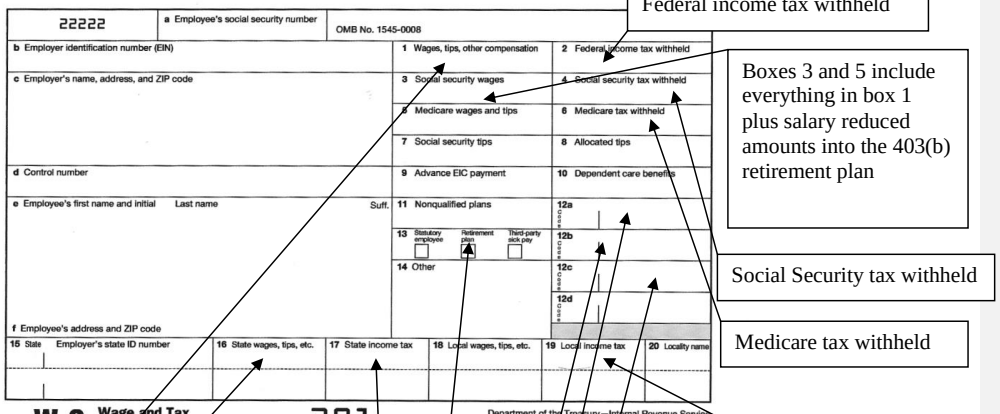
Box 12
Salary reduced contributions to a 403(b)(9) including your church retirement plan with GuideStone. Only salary reduction agreement amount goes in this box. Use code letter "E." Employer contributions are not reported on the W-2.

Check box 13 if employee and or church participate in the retirement plan

Housing allowance ***may*** be reported in Box 14. It is not required and our recommendation is not to, but if your church software does, it is OK. Box 14 can also be used to report the date if a minister is ordained during the year.

Alabama voluntary withholding as requested on the A-4

How to complete a non-minister's W-2



Federal income tax withheld

Boxes 3 and 5 include everything in box 1 plus salary reduced amounts into the 403(b) retirement plan

Social Security tax withheld

Medicare tax withheld

Varies by city and county. Most can leave blank

Same as box 1

Alabama income tax withheld

Box 12. Reporting of value of health care. Box 12 with code DD. Note: not taxable. Only required on W-2 for employers of 250 or more.

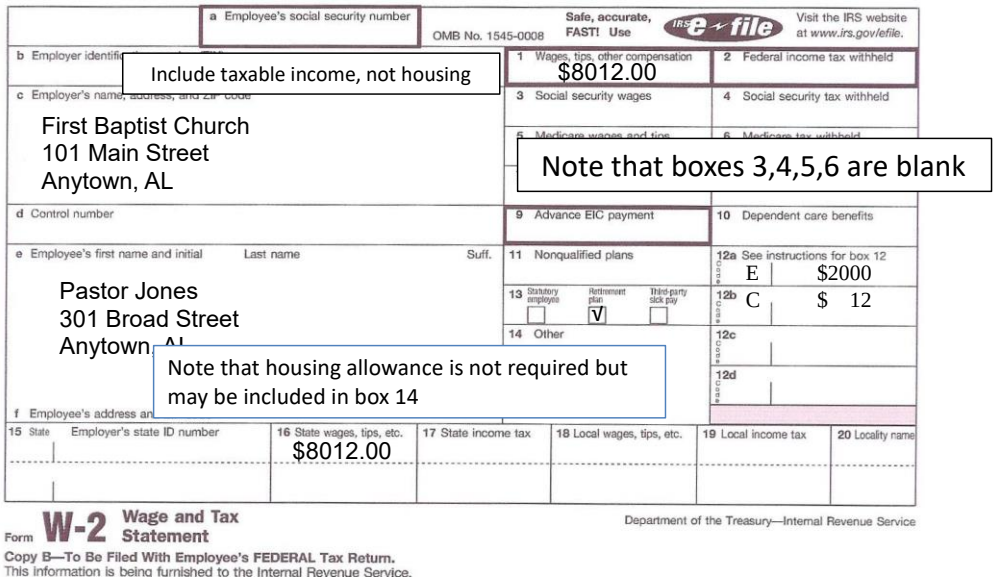
Box 12. Taxable cost of group-term life insurance over $50,000. Use code "C." See IRS Publication 15-B, page 12 for the calculation.

Box 12
Salary reduced contributions to a 403(b)(9) including your church retirement plan with GuideStone. Only salary reduction agreement amount goes in this box. Use code letter "E." Employer contributions are not reported on the W-2.

Check box 13 if church and/or employee participate in the retirement plan

Salary (plus housing if any)
Bonuses
Social Security offset paid by church
Non-accountable business expenses
Christmas and special love offerings
Retirement Gifts
Gifts of property (small or large)
GTL Insurance over $50,000
Personal use of church owned car/van
Discretionary funds
Reimbursement of spouse travel
Forgiveness of debt
Church paid Holy Land Trip
Funeral/Wedding fees from church
Below market loans or property
Payment of personal expenses
Do NOT include contributions to a 403(b) retirement plan including the Church retirement plan through GuideStone
Payment of moving expense

Minister W-2 Sample



a Employee's social security number

OMB No. 1545-0008 — Safe, accurate, FAST! Use — IRS e-file — Visit the IRS website at www.irs.gov/efile.

b Employer identifi

Include taxable income, not housing

1 Wages, tips, other compensation: $8012.00

2 Federal income tax withheld

c Employer's name, address, and ZIP code

First Baptist Church
101 Main Street
Anytown, AL

3 Social security wages

4 Social security tax withheld

5 Medicare wages and tips

6 Medicare tax withheld

Note that boxes 3,4,5,6 are blank

d Control number

9 Advance EIC payment

10 Dependent care benefits

e Employee's first name and initial — Last name — Suff.

Pastor Jones
301 Broad Street
Anytown, AL

11 Nonqualified plans

12a See instructions for box 12: E $2000

13 Statutory employee ☐ — Retirement plan ☑ — Third-party sick pay ☐

12b C $ 12

14 Other

Note that housing allowance is not required but may be included in box 14

12c

12d

f Employee's address and

15 State — Employer's state ID number	16 State wages, tips, etc.	17 State income tax	18 Local wages, tips, etc.	19 Local income tax	20 Locality name
	$8012.00				

Form **W-2** Wage and Tax Statement — Department of the Treasury—Internal Revenue Service

Copy B—To Be Filed With Employee's FEDERAL Tax Return.
This information is being furnished to the Internal Revenue Service.

E $2000.00
C $ 12.00
DD $5000.00

941 Sample

Line 1 – include minister
Line 2 – include minister taxable income
Lines 5 – do not include minister

1 Number of employees who receive pay including: *Mar. 12* (Quarter 1), *June*	1	2
2 Wages, tips, and other compensat	2	$4750.00
3 Total income tax withheld from wages, tips, and other compensation	3	$150.00

4 If no wages, tips, and other compensation are subject to social security or Medicare tax . . ☐ Check and go to line 6.

5 Taxable social security and Medicare wages and tips:

	Column 1		Column 2
5a Taxable social security wages	$3000.00	× .124 =	$372.00
5b Taxable social security tips	$0.00	× .124 =	$0.00
5c Taxable Medicare wages & tips	$3000.00	× .029 =	$87.00

5d Total social security and Medicare taxes (*Column 2*, lines 5a + 5b + 5c = line 5d) . .	5d	$459.00
6 Total taxes before adjustments (lines 3 + 5d = line 6)	6	$609.00

2
$4750.00
$ 150.00

$459.00
$609.00

Social Security basics for ministers and churches[8]

Like other taxpayers, most ministers and church employees pay a significant amount of their income for Social Security each year. Unfortunately, however, some ministers and churches may not understand the basic rules about Social Security. Failure to understand these rules can lead employees to underpay Social Security taxes, a situation which may result in penalties in the event of an Internal Revenue Service audit. Churches not aware of the rules could violate federal payroll tax procedures. This page attempts to answer some of the basic questions about Social Security.

Do ministers have to pay Social Security taxes?

Yes, unless they have followed IRS rules to opt out of Social Security. Even if they have opted out of Social Security on their ministerial income, they must pay Social Security taxes on income from secular employment.

What is the difference between SECA and FICA?

SECA is short for **Self-Employment Contributions Act** and refers to the rate which self-employed people pay toward Social Security. FICA is short for **Federal Insurance Contributions Act** and refers to the rate at which employees and employers contribute toward Social Security. Employers and employees together pay FICA and self-employed individuals like ministers pay SECA. FICA is 7.65% and is matched by the employer. SECA is 15.3%.

Do ministers have to pay self-employment taxes on their ministerial income?

Yes, ministers must pay Social Security taxes at the self-employment rate (SECA) on their ministerial income because ministers are always considered self-employed for Social Security purposes.

Can a church pay FICA for an ordained minister?

No. A church cannot pay FICA for a minister. By law, ministers are always treated as self-employed for Social Security purposes and therefore subject to SECA for their ministerial earnings. Churches that pay SECA for their ministers are not doing them a favor. They are violating the law. Additionally, when churches report FICA for their ministers, they can disrupt the Social Security Administration's records.

Does a minister have to pay Social Security taxes on a housing allowance?

Yes, although a housing allowance is excluded from income for federal and state income tax purposes, a minister must pay Social Security taxes (SECA) on a housing allowance or the rental value of a parsonage.

Do churches have to pay FICA for their non-ministerial employees?

Yes. A church must pay FICA for non-ministerial employees unless the church has elected to exempt itself by filing the correct forms with the IRS.

Can a church give a minister a Social Security allowance to help offset the expense of SECA?

Yes, a church can give a minister an allowance to help offset the expense of SECA. But remember, a Social Security allowance is taxable income for the minister.

Will Social Security provide sufficient income for retirement?

No. Social Security will provide 25-40% of income needs in retirement. Therefore, Social Security alone will not meet retirement income needs. Churches need to take an active lead to make sure all employees with taxable income are in the Church Retirement Plan. As a general rule, churches and employees need to contribute at least 10% of salary and housing allowance income into the employees' Church Retirement Plan through GuideStone of the Southern Baptist Convention.

[8] Keith Hamilton, "Social Security Basics for Ministers and Churches," TAX -FAX Up-Dates Volume 1 Number 10: 1. This information is from the brochure published by GuideStone titled "Social Security Basics for Ministers and Churches." This document is intended to provide churches, pastors and staff with current and accurate information about the subjects covered. However, such information is not intended to be sufficient for dealing with a particular legal problem and the authors and distributors do not warrant or represent its suitability for such purpose. The reader should not rely upon this document as a substitute for independent legal consultation.

The Fair Labor Standards Act

Overtime and minimum wage

Summary of FLSA requirements

1) Federal Wage Hour Division *Notice to Employees* must be posted
2) Maximum workweek of 40 hours at regular pay.
3) Requires payment of overtime at a rate of one and one-half times the employee's regular rate of pay for all hours worked in excess of 40 hours per week.
    a) Employees who work more than 40 hours in one workweek must be paid overtime. This is true even if the employee works over without the specific consent of the supervisor but an employer knew or should have known. It should be in a written personnel policy manual that all overtime must be authorized. All personnel policies should be signed by all employees.
    b) Overtime must be paid.
        i) Comp time is not allowed[9] (although hours may be shifted from day to day in the same work week). The work week must total not more than 40 hours or overtime must be paid at a rate of one and one-half times the employee's regular rate of pay for all hours worked in excess of 40 hours per week.
        ii) Employers may not let a person work extra unpaid hours one week in exchange for paid time off another week.
4) Requires minimum wage be paid— presently $7.25.[10]
5) No maximum daily hours limit.
6) No breaks are required except for workers age 14-15.
7) Employees may work any number of hours on a given day.
8) A salaried employee is NOT automatically exempt. Employees are exempt only as outlined below (e.g., a secretary or administrative assistant is non-exempt even if paid a salary and actual hours are not normally considered a factor for pay computation).
9) Exempt from the act's overtime and minimum wage requirements:
    a) Ministers[11] Although minister was not defined by the court, the IRS definition is the best one to use. Ordination not required. A minister may be considered exempt.
    b) Executive employee—In order to be exempt as an executive employee, the individual must meet all the following tests:
        i) The employee must earn $684 per week. ($35,568) Ministers are exempt employees even if paid less than $684 per week.
        ii) Their primary duty must be managing the church, or some distinct department or division of the church.
        iii) They must direct the work of at least the equivalent of two full time employees. The 80% requirement is gone.
        iv) They must have the authority to hire and fire employees or their input is given particular weight.
    c) Administrative employees — In order to be exempt as an administrative employee, the individual employee must meet all the following tests:
        i) The employee must earn $684 per week.
        ii) Their primary duty must be office or non-manual labor related to the management of the church.
        iii) The primary duty must include the exercise of discretion and independent judgment with respect to matters of significance for the church.

[9] Government entities (federal, state, county and municipal including public schools) and government contactors are exempt from the comp time restriction.

[10] Certain full-time students, student learners, apprentices, and workers with disabilities may be paid less than the minimum wage under special certificates issued by the Department of Labor.

[11] Richard Hammar, *Church Treasurer Alert* (October 2004). "The Fourth Circuit Court ruled that the 'ministerial exemption' prohibits the DOL from enforcing the FLSA against ministers. This ruling is only binding in five states (Maryland, North Carolina, South Carolina, Virginia and West Virginia), but it sets a strong precedent for all future cases. [This] provide[s] a basis for concluding that the FLSA requirements do not apply to ministers" said Hammar in the October 2004 edition of the *Church Treasurer Alert*.

d) Professional employees — In order to be exempt as a professional employee, the individual employee must meet all the following tests ("The regulation contains specific examples of jobs that fail this test, including health care professionals, teachers and outside sales workers."[12]):
    i) The employee must earn $684 per week.
    ii) Their primary duty must be performing work that requires advanced knowledge, the work must be primarily intellectual in character, and the work must require consistent exercise of discretion and judgment.
    iii) Their field of work must be in a recognized science or field of advanced learning.
    iv) The advanced knowledge must be customarily acquired by a prolonged course of specialized intellectual instruction.[13]
    v) If the field of advanced learning relates to a creative professional (music, art), then the work must require invention, imagination, originality or talent in a recognized field of artistic or creative endeavor.
e) Computer Professional — In order to be exempt as a computer professional, the individual employee must meet all the following tests:
    i) They must earn at least $684 per week.
    ii) They must work as a systems analyst, programmer, software engineer, or similar position.
    iii) Their primary duty must consist of application of systems analysis, design development, creation, testing or modification of systems or programs, or design, development, creation, testing or modification of operating systems.

10) Workers are excluded (must be exempt) from overtime eligibility if they earn more than $100,000 and their jobs regularly include at least one administrative or professional responsibility.
11) Employees are covered if:
    a) They are engaged in commerce
    b) The production of goods for commerce, or
    c) Work in an enterprise engaged in commerce or the production of goods for commerce.
12) Weekday education and church school teacher are specifically non-exempt unless bona fide teacher whose primary duty is teaching rather than care. See DOL Fact Sheet #46 Child Care Centers
13) To be covered, individuals must be employees (not volunteers).
    a) Employees may volunteer if it is made clear that volunteering is not paid and not a requirement for their job and is not in an area of work for which they are also paid.
    b) Volunteering for same or similar duties is not allowed.
        i) A bookkeeper cannot be treated as both a paid bookkeeper and an unpaid volunteer bookkeeper for the same institution.
        ii) A church secretary with a job requirement to serve as church clerk may not be paid and volunteer as church clerk. The secretary/clerk must either be paid for all hours or volunteer for all hours.
14) All employers who have employees covered by the act must maintain adequate records documenting all employees:
    a) Weekly time sheets or time cards signed by the employee to document hours worked.
    b) Hard copies of payroll records with wages received. Include time worked, pay computation, check numbers, and a record of each check as it clears the bank.
    c) Suggestion: Prepare an employment agreement with terms and conditions of employment.
15) Employers who violate the act are liable to their employees for:
    a) The amount of the unpaid minimum wage or the unpaid overtime pay, and,
    b) An equal additional amount for liquidated damages.
    c) Employees can also collect the reasonable cost of their attorney's fees and court costs in suing the employer.
    d) Employers who willfully violate the minimum wage or overtime pay requirements of the act are subject to a fine of up to $10,000 for each violation.

[12] Somerville, Frank. New Overtime Rules Will Effect Churches. 6/30/04. Posted 7/16/04 <http://www.nacba.net/Article/overtime.htm)>.
[13] Department of Labor. www.dol.gov

e) A two-year statute of limitations applies to the recovery of back wages except in the case of willful violations, in which case a three-year statute of limitations applies.

16) The act requires covered employers to pay males and females the same compensation for the same work.

Recordkeeping

The FLSA requires employers to keep records on wages, hours, and other items, as specified in Department of Labor recordkeeping regulations. Most of the information is of the kind generally maintained by employers in ordinary business practice and in compliance with other laws and regulations. The records do not have to be kept in any particular form and time clocks need not be used. With respect to an employee subject to the minimum wage provisions or both the minimum wage and overtime pay provisions, the following records must be kept:

1) Personal information, including employee's name, home address, occupation, sex, and birth date if under 19 years of age;
2) Hour and day when workweek begins;
3) Total hours worked each workday and each workweek;
4) Total daily or weekly straight-time earnings;
5) Regular hourly pay rate for any week when overtime is worked;
6) Total overtime pay for the workweek;
7) Deductions from or additions to wages;
8) Total wages paid each pay period; and
9) Date of payment and pay period covered.

Records required for exempt employees differ from those for nonexempt workers. Special information is required for homeworkers, for employees working under uncommon pay arrangements, for employees to whom lodging or other facilities are furnished, and for employees receiving remedial education.

What does the Fair Labor Standards Act NOT require?

There are a number of employment practices which the FLSA does not regulate. For example, the FLSA does not require:

1. Vacation, holiday, severance, or sick pay
2. Meal or rest periods, holidays off, or vacations
3. Premium pay for weekend or holiday work
4. Pay raises or fringe benefits
5. A discharge notice, reason for discharge, or immediate payment of final wages to terminated employees
6. Pay stubs or W-2's (although the IRS does require W-2's, DOL does not).

FLSA case studies

Example 1

- Betty is non-exempt.
- She earns $8 per hour.
- She works five days a week from 8 to 5 minus a daily 1-hour break.
- She routinely comes in 30 minutes early to get organized.
- Result:
  - You must pay her for 40 hours at $8 per hour ($320)
  - You must add 2½ hours at time and a half at $12.00 per hour ($30.00).
  - Total pay is $350.00.

Example 2

- Betty is non-exempt.
- She earns $8 per hour.
- She works five days a week from 8 to 5 minus a daily 1-hour break.
- On Sunday she is asked to open the office and run some copies. It takes 1 hour.
- Result:
  - You must pay her for 40 hours at $8 per hour ($320)
  - You must add one hour at time and a half at $12.00 per hour ($12.00).
  - Total pay is $332.00

Example 3

- Betty earns a salary of $320.00 per week.
- She works five days a week from 8 to 5 minus a daily 1 hour break.
- She routinely comes in 30 minutes early to get organized.
- Result:
  - You must pay her for her 40 hours at her $320.00 salary.
  - You must calculate hourly basis of her pay (Salary divided by hours per week) $8 hour.
  - You must add 2½ hours at time and a half the basis at $12.00 per hour ($30.00).
  - Total pay is $350.00

The FLSA does not provide wage payment or collection procedures for an employee's usual or promised wages or for commissions in excess of those required by the FLSA. Also, the FLSA does not limit the number of hours in a

day, or days in a week, an employee may be required or scheduled to work, including overtime hours, if the employee is at least 16 years old. Alabama Child Labor law restricts persons under age 18. The law restricts hours, requires breaks for younger workers and restricts types of jobs. See. http://www.alalabor.alabama.gov/uc/ChildLabor/ (Note: AL Child Labor law changed in 2009)

The above matters, which are not covered by the FLSA, are generally for agreement between the employer and the employees or their authorized representatives.

Recommendations for church policies:

1) No non-exempt employee will work more than 40 hours in any workweek unless the Pastor, the Business Administrator or the Chairperson of the personnel committee approves it in writing. When a non-exempt employee works more than 40 hours in any week, they must be paid at one and one half times their regular rate. Funds must be available for overtime before approval will be given. Working overtime without permission will result in a termination hearing.
2) Voluntary overtime will not be acceptable. The Pastor, the Business Administrator or the Chairperson of the personnel committee must approve all overtime in writing. *[Specify this in your written policy manual and place it in the employee's hands at the time of employment]*.
3) When an employee is needed to work additional time on any given day or on the weekend, time shall be given off at other times during that particular week. If an employee needs to work late on Friday or Saturday, this should be anticipated and time should be given off in the earlier part of that week.
4) The pay period shall begin on Wednesday and end on Tuesday. This is to provide greater flexibility in allowing longer hours on Sunday, Wednesday and Friday (time off can be given on other days than Friday).
5) Work away from the church building involving a non-exempt employee should be eliminated if possible. If working away from the church building is absolutely necessary, then it must be approved in writing by the Pastor, the Business Administrator or the Chairperson of the personnel committee.
6) If it is necessary for a non-exempt employee to work away from the building, credit will be given for travel time and hours for which actual work is performed.
7) The attached form, Weekly Attendance Record (page 116), will be completed each week by the non-exempt employee, signed, approved, and given to the financial secretary each Wednesday (or Monday) morning. This form is required to fulfill the requirement previously listed, 'must maintain adequate records documenting all hours worked and leave time." It must be completed each pay period. It must be signed each week.
8) When employing new people, a written *Employment Agreement* will be prepared by the personnel committee.
9) The financial secretary will maintain a record of all wages received by each employee. This will include time worked, pay computation, check numbers, and a record of each check as it clears the bank.

For additional information, contact your local office of the Wage-hour Division of the U.S. Labor Department. In Birmingham (205) 731-1305. On the web, visit www.dol.gov for a small business guide.

Implications

Non-exempt employees who work more than 40 hours in one workweek must be paid overtime. This is true even if the employee works over without the specific consent of the supervisor but an employer knew or should have known.

- It should be in the personnel policy manual that all overtime must be authorized.
- Time sheets can help solve this.

Workweek and pay period are different!

- Workweek defined as a seven-day look-back period.
- Workweek and pay period are not linked.
- You may choose one, or the government will choose Sunday through Saturday. You should choose Wednesday through Tuesday to allow Monday and Tuesday as days to give time off for extra hours worked on Wednesday, Friday and/or Sunday.

Overtime must be paid.

- Comp time is not allowed.
- The work week must total not more than 40 hours or:
    - Overtime must be paid at a rate of one and one half times the employee's regular rate of pay.
    - For all hours worked in excess of 40 hours per week.

Employees may work any number of hours on a given day.

A salaried employee is covered.

- Employees are exempt only as outlined in section one, item 5
- A secretary or administrative assistant is NON-exempt even if paid a salary and actual hours are not normally considered a factor for pay computation.

Written (not just electronic) employment records must be maintained and should be signed.

- Weekly time sheets or time cards signed by the employee to document hours worked.
- Hard copies of payroll records with wages received.
- Maintain a record of all wages received by each employee.
- Include time worked, pay computation, check numbers, and a record of each check as it clears the bank.
- An employment agreement with terms & conditions of employment is very helpful.

What is considered commerce?

- Selling fund raising items,
- Selling Tee-shirts,
- Wednesday night suppers,
- Selling audio recordings
- Selling DVDs
- Selling Literature,
- Selling Books,
- Selling Directory pictures,
- Radio broadcasts,
- Television broadcasts,
- Providing paid day-care.
- Charging for use of buildings (weddings).
- Using a telephone.
- Using the internet.
- Sending Email

Volunteering for same or similar duties is not allowed.

1) A bookkeeper cannot be treated as both a paid employee and an unpaid volunteer bookkeeper for the same institution.
2) A paid church secretary required to serve as clerk must be paid while performing duties as church clerk.
3) You must pay time and a half for hours over 40 worked in a 7-day look back period.
4) You may not give comp time (you may adjust hours within the same 7-day work week).
5) Salaried employees are covered just as hourly employees are.

Minimum Wage Law & Employment Posters Required

Minimum wage is **$7.25**. Employers should examine their wage and hour plans to ensure compliance with the federal minimum wage requirements.

Employment Posters Required

There are 3 new posters: The National Labor Relations Act, E-Verify Participation Poster and the Right to Work Poster

Several posters are newly revised: Alabama Child Labor Law, FMLA, EEOC and FLSA.

Minimum wage posters may be found at www.dol.gov. They may be downloaded and printed free from these web sites:

1. **Alabama Child Labor Law**. https://labor.alabama.gov/docs/posters/childlaborlawposter_english.pdf
2. **Alabama Unemployment Compensation** http://labor.alabama.gov/docs/posters/uc_jobinsurance.pdf. While churches are excluded by law from participating, you must post this. Write on the poster in big bold red letters "**Churches are excluded by Alabama law from participating**"
3. **Alabama Workers' Compensation** https://labor.alabama.gov/docs/doc_type.aspx?id=2
4. **Employee Polygraph Protection Act** http://www.dol.gov/whd/regs/compliance/posters/eppa.htm
5. **Equal Employment Opportunity** http://www1.eeoc.gov/employers/poster.cfm
6. **Family and Medical Leave Act** www.dol.gov/whd/regs/compliance/posters/fmla.htm
7. **Fair Labor Standards Act (Federal Minimum Wage and Overtime)** www.dol.gov/whd/regs/compliance/posters/flsa.htm
8. **OSHA** https://www.osha.gov/Publications/poster.html (Title 29 Code of Federal Regulations, 1903.2(a)(3) states that reproductions or facsimiles of the poster shall be at least 8 1/2 by 14 inches with 10 point type.)
9. **Uniformed Services Employment and Reemployment Rights Act** http://www.dol.gov/vets/programs/userra/USERRA_Private.pdf
10. **National Labor Relations Act** http://www.dol.gov/olms/regs/compliance/employeerightsposter11x17_final.pdf
11. **E-Verify participation poster** www.uscis.gov/everify. Click on publications, then posters. (English and Spanish posters both required) Do not post until you sign up for E-Verify.
12. **Department of Justice Right to Work poster.** www.uscis.gov/everify (English and Spanish posters both required)

Section 2: Church Staff Salary & Benefits

Why is planning financial support important?

That God's Word may be honored

The New Testament provides direct, clear instruction to the church concerning its financial support of those it calls into its service. The appropriate committee should consider the following passages as it does its work of financially providing for all church employees.

In the same way, the Lord has commanded that those who preach the gospel should receive their living from the gospel (I Cor. 9:14).

Anyone who receives instruction in the word must share all good things with his instructor (Gal. 6:6).

Stay in that house, eating and drinking whatever they give you, for the worker deserves his wages. Do not move around from house to house (Luke 10:7).

To reduce confusion and instability

Clearly written policies about ministry related expenses, employee benefits and personal income reduces confusion. For example, as committee members come and go, policies and procedures of previously convened committees may be lost, confused or misunderstood. Written policies adopted by the church concerning financial support issues reduces the instability and inefficiency of "recreating the wheel" with each new group of committee members.

To reduce tax liability

How a church pays its employees is as important as the amount of money the church pays them. Many churches use a "package" approach. They determine a sum of money for pay and then instruct their minister to "divide it any way you want." These arrangements usually cause a minister to pay more taxes than may be legally owed, and can be in violation of tax law. For example, allowing an employee to restructure or reduce a portion of salary to cover business related expenses is prohibited by Treasury Regulation 1.62-2(d)(3) and addressed in IRS Letter Ruling 200035012. Churches and ministers need to know and follow current tax laws in an effort to practice Jesus' teaching to "render unto Caesar that which is Caesar's."

To ensure church funds are spent appropriately

Churches may find it easier to use the package approach, but this may cause problems for the minister and the church. The minister has to pay more taxes and may have less money to provide for his family. Churches can maximize their limited resources to accomplish as much as possible by using available tax laws and implementing sound business practices. It is a matter of good stewardship.

To clarify true personal income

What sounds like a good income can be deceiving. A lump sum figure may sound substantial, but if the minister is paying for medical coverage and ministry-related expenses out of that lump sum, he's probably not taking home as much salary as someone employed by a business.

To extend the tenure of church employees

The church may extend the tenure and effectiveness of its employees with clearly defined policies of financial support. Turnover of ministers and staff can weaken a church's ministry. A strong financial support plan shows your church really cares for the people it calls to serve and can be an advantage when you are seeking God's person for a ministry role you need to fill.

To ensure protection for the minister and church

Churches may find it easier to use the package approach, but this can cause problems for the minister and the church. The minister will likely be paying more taxes with this method, and may find he does not have enough income left for medical, life or disability insurance. A decision to forgo this important coverage could leave the church with a serious financial consequence if unfortunate circumstances occur.

Scripture quotations are from The Holy Bible, New International Version

Step 1: Determine the needs

Ask each minister and paid employee to complete a copy of the following Financial support review and return it to your committee. This will help you determine if last year's plan for support adequately met the needs of your minister and employees. It will also help you identify issues that may require additional attention as you work on the budget for the coming year. You will use this review to complete a Financial Support Worksheet in step 6.

Financial support review

Minister/employee: _____

Please complete and return to the committee by: _____/_____/_____

Section 1 — Ministry-related expenses

Vehicle expenses

How many miles do you estimate you drove your personal vehicle last year to do church business (visiting prospects, trips to hospital, denominational meetings, etc.)? _____ Miles

Multiply these business miles by the Internal Revenue Service standard mileage rate to determine cost for business use of your vehicle. $_____

How much money was provided by the church last year to offset this expense? $_____

How many miles do you estimate you will drive in the coming year? _____ Miles

Travel expenses

How much money did you spend on travel expenses to participate in work-related conventions and conferences (lodging, food, commercial transportation, etc.)? $_____

How much money was provided by the church last year to offset this expense? $_____

Ministry expenses

How much money did you spend last year on materials (books, periodicals, software, tapes, etc.) in preparation of sermons, studies and other presentations related to your church ministry? $_____

How much money was provided by the church last year to offset this expense? $_____

Professional development

How much money did you spend last year in the form of continuing education, workshops or conferences to enhance your ability to minister in your church? $_____

How much money was provided by the church last year to offset this expense? $_____

Hospitality expenses

How much money did you spend last year to "host/entertain" church groups, prospects, visiting evangelists and other guests of the church in your home or at a restaurant? $_____

How much money was provided by the church last year to offset this expense? $_____

Section 2 — Protection benefits

Do you and your family have medical coverage? ☐☐Yes ☐☐No

What was the cost for your medical coverage last year? $_____

How much money was provided by the church last year to offset this expense? $_____

What do you anticipate the cost will be next year? $_____

Do you have life insurance? ☐☐Yes ☐☐No

What was the cost for your life coverage last year? $_____

How much money was provided by the church last year to offset this expense? $_____

Do you have disability coverage? ☐☐Yes ☐☐No

What was the cost for your disability coverage last year? $_____

How much money was provided by the church last year to offset this expense? $_____

Does your employer make retirement plan contributions for you to a 403(b)(9) Retirement Plan or another retirement program? ☐☐Yes ☐☐No

If Yes, what was the contribution that was made by your church last year? $_____

Section 3 — Personal income

How much was the salary paid to you by the church last year? $_____

Did you receive a cost-of-living or merit increase last year? □□Yes □□No
If you are a minister for tax purposes, what was your housing allowance or the value of the parsonage provided by your church last year? $_____
If you are a minister for tax purposes, how much self-employment (SECA) tax did you pay on your church income last year? $_____
How much money was provided by the church last year to offset this expense? $_____

Step 2 Establish written financial support policies

Whatever can be done to reduce conflict in the church should be done. Misinformation, confusion and personal interpretation are some of the elements that feed misunderstanding and division. Church committees often experience this kind of conflict when new members rotate in and others leave for other service opportunities in the church. The newly-formed committee may or may not do its work in the same way the previous committee did. It is this inconsistency that often fuels conflict. Written policies reduce the conflict caused by the personal interpretation of previous committee actions. These policies form an objective standard for the committee's current and future actions, regardless of who may come or go from the committee. Your church should have written policies that cover at least the following four areas:

1. Ministry-related expenses
The policy should clearly explain:

- What the church considers allowable business expenses. These should be consistent with IRS rules.
- What is expected of an employee in terms of recordkeeping and submission of expense account forms?
- The rate the church will use to reimburse miles driven for church business.
- Expenses related to conferences and conventions.
- The purchase of books, periodicals, software, etc. Will the ministerial employee own these items if the church reimburses for the purchase?
- The tax implications of an accountable reimbursement arrangement.
- Business use of personal wireless/cell phones and computers.

If you have questions about these issues that are not addressed in our annual *Ministers Tax Guide*, please consult a tax advisor.

2. Employee benefits
The policy should clearly define the following:

- What levels of coverage the church will provide for medical, life and disability coverage for church employees and their families?
- What retirement contribution the church will provide for its employees.
- Information about Social Security. Churches must pay their share and withhold a non-ministerial employee's share of Social Security taxes (often called FICA). However, ministers pay SECA taxes on their ministerial income. The church may provide additional taxable income to ministers to lighten this burden. The additional income may be called a "Social Security offset".
- Limits and types of educational expenses the church will reimburse.

3. Personal income
The church must not think of money designated by the church for ministry-related expenses and employee benefits as personal income. The church must be keenly aware that personal income is the amount of money the employee will have to financially provide for himself and his family.
The policy should clearly explain:

- Total amount that may be divided between cash salary and housing allowance. Let the minister help you with this division.
- Whether the church will withhold taxes at a minister's request.
- How the church will designate housing allowance for eligible ministers living in a church-owned home or their own homes.
- Considerations for future personnel reviews and pay increases.

4. Other personnel policies

There are other policies the church should be considering for its employees, including the following:

- Vacation.
- Sick leave.
- Sabbatical leave.
- Outside speaking engagements.
- Hiring issues.
- Employee classifications.
- Work hours.
- Pay periods.

Step 3: Provide for ministry-related expenses

If your church has a building, then your annual budget also includes a line item for utility expenses. You can't have one without the other. In the same way, it takes more than just providing a salary to have a minister. Ministry-related expenses of your pastor should be thought of as the "utility" costs of having a minister. These expenses include, but are not limited to:

- Expense of operating a vehicle for church business.
- Money to participate in denominational meetings, workshops and other appropriate conferences.
- Books, periodicals, software and tapes to enhance ministry.
- Continuing education opportunities.
- Provisions for hospitality in the course of ministry.

Just as a business pays for paper clips, computer software and work-related mileage of its employees, it is the church's responsibility to provide money for ministry-related expenses and supplies. **These expenses should not come out of an employee's pocket or be included in a "package" amount given to your minister. They should be provided by the church, and in a separate budget line from salary.**

Sample expense report

Employee name: Rev. John Smith

For the month of January Year 2019

Date	Description of expense	Business purpose	Amount
17-18	Mileage (457 x .58)	State convention	$265.06
17	Meals at convention	State convention	$ 53.25
17-18	Hotel lodging	State convention	$120.00
17	Sunday School ministry Teacher's guide	Books	$ 53.00
		Subtotal	$491.31
		Minus advance	$200.00
		Total reimbursement due	$291.31

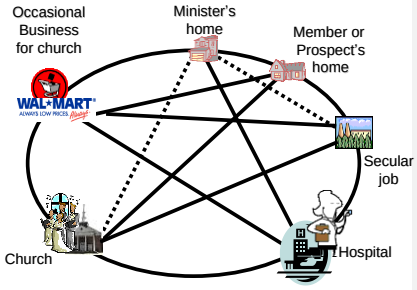
Some churches give their minister and employees a set amount of money each month to cover automobile expenses. They ask for no accounting of how it is spent and call it an automobile "allowance." This approach is common, but it is not the best way to handle vehicle expenses and results in the employee being forced to pay taxes on this "allowance".

Most businesses use an accountable reimbursement plan to provide for employee expenses. This method is also available for use by churches. The church budgets money to fund reimbursements. The minister or employee turns in a record each month to the church recording all business miles driven and receipts for other ministry related expenses (see sample pictured at right). The church then reimburses the employee from the budgeted expenses. Employees pay no taxes on amounts reimbursed under an accountable reimbursement plan.

For example, assume a pastor traveled to the state convention and will be reimbursed for the expenses incurred. The minister would submit an expense account form like the one above to be reimbursed. Receipts for all purchases should be attached.

Automobile Expenses:[14]

Church employees must first understand what qualifies as business miles. Total mileage driven during the year should be allocated between business miles and non-business miles based on the following:



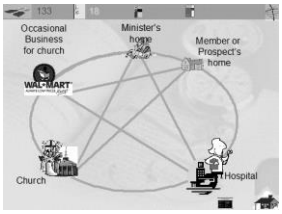
Business Miles:

- Travel between two different workplaces on business
- Travel between a residence and a temporary workplace at which a person is assigned and works on an irregular or short-term basis (less than 365 days)
- Travel to and from a residence to an out of town conference and continuing education seminar that requires an overnight stay

Non-Business Miles:

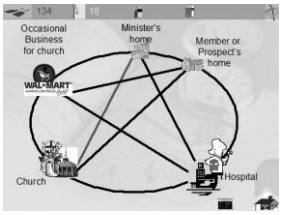
- Travel between a residence and a regular workplace, such as the church, no matter how many trips
- [*Consistent or a recurring pattern*] of travel between a residence and any place on business, no matter how many trips

[14] *Frank Sommerville, JD, CPA; Hammar & Sommerville; Dallas and Houston, Texas; fsommerville@nonprofitattorney.com ,*



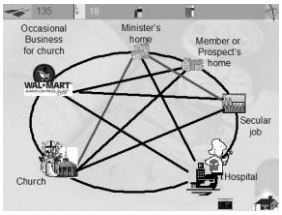
This slide shows some of the employee's travel responsibility.

- The church is the employee's **workplace** (or regular work location).
- Wal-Mart, Members' homes, Prospects' homes, Hospitals, and similar locations are often **temporary workplaces** (or temporary work locations**)** since work related duties are performed there.



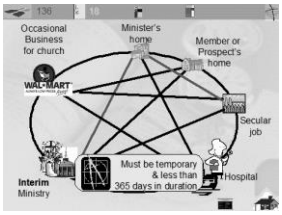
The black lines are travel that is an allowable business expense if driven to a temporary workplace for a **business purpose**. Your drive from home to Wal-Mart and back is allowable if you are buying file folders for work.

The trip from home to a **workplace** (or regular work location) is **never** an allowable business expense. The IRS calls this "commuting" (to a regular work location).



If the minister has two jobs (regular work locations), **neither** trip to a **regular work location** from home is an allowable business expense. Just as mentioned above, the IRS calls this "commuting".

However, trips **between** the two jobs **are** an allowable business expense.



If the minister has one regular work location, and also serves as an interim at your church, the church may be considered a temporary work location provided it is a **temporary** situation and is **less than 365 days** in duration.

Trips **between** the two jobs **are** an allowable business expense.

Reimbursing Mileage: Adequate Accounting

One of the rules for an accountable plan is that you must adequately account to your employer for your expenses. You adequately account by giving your employer a statement of expense, an account book, a diary, or a similar record in which you entered each expense at or near the time you had it, along with documentary evidence (such as receipts) of your travel, mileage, and other employee business expenses. A per diem satisfies the adequate accounting requirement under certain conditions. See Per diem and Car Allowances, later.

You must account for all amounts you received from your employer during the year as advances, reimbursements, or allowances. This includes amounts you charged to your employer by credit card or other method. You must give your employer the same type of records and supporting information that you would have to give to the IRS. You must pay back the amount of any reimbursement or other expense allowance for which you do not adequately account or that is more than the amount for which you accounted.

Per Diem

If your employer reimburses you for your travel expenses away from home using a per diem, you can generally use the allowance as proof for the amount of your expenses. A per diem satisfies the adequate accounting requirements for the amount of your expenses only if all of the following conditions apply. See IRS Pub 1542.

1. Your employer reasonably limits payments of your expenses to those that are ordinary and necessary in the conduct of the trade or business.
2. The allowance is similar in form to and not more than the federal rate.
3. You prove the time (dates), place, and business purpose of your expenses to your employer (as explained in following table) within a reasonable period of time.
4. You are not related to your employer. If you are related to your employer, you must be able to prove your expenses to the IRS even if you have already adequately accounted to your employer and returned any excess reimbursement.

If the IRS finds that an employer's travel allowance practices are not based on reasonably accurate estimates of travel costs (including recognition of cost differences in different areas for per diem amounts), you will not be considered to have accounted to your employer.

Important 2018 Tax Change – Employee Unreimbursed Business Expense

For 2018 and beyond, the Employee Unreimbursed Business Expense line on the Schedule A form is eliminated. Ministers who serve a church are employees in every way except they are self-employed for Social Security purposes. This means that the only way to avoid paying tax on ministry business expenses is to have an accountable reimbursement plan. For the minister serving a church, these expenses are no longer deductible for Federal Income Tax. The IRS continues to use the term "deductible" because business expenses continue to be so for self-employed persons. For clarity, this book uses the term "business miles" and "business expenses" rather than "deductible miles."

Non-accountable Reimbursement Hurts the Employee

Non-accountable reimbursements are reported on box 1 of the W-2. **Employee Unreimbursed Business Expenses are not deductible beginning in 2018**.

1. Employee Unreimbursed Business Expenses are no longer deductible for Federal Income Tax.
2. Ministers should keep records of unreimbursed business expenses to deduct on the Schedule SE.
   See the GuideStone Minister Tax Guide by Richard Hammar, page 40.

Be sure to track these expenses for Alabama State Income Tax Purposes.

Some ministers will have self-employment income such as weddings, funerals, revivals, etc. This self-employment income and the business expenses related to it can be reported on Schedule C.

How to set up an accountable reimbursement plan

An accountable reimbursement plan must meet the following requirements:

- The expense must have a business purpose related to the minister's or employee's duties. Commuting expenses are not business expenses.
- Ministers and employees must identify the expense with a receipt and documentation that verifies the amount, date, place and business purpose (see sample on next page). Ministers and employees should provide documentation within 60 days of incurring the expense. The church can avoid requiring documentation of exact amounts for travel expenses by using the standard mileage rate for transportation and the IRS approved per-diem rate for meals and lodging.
- Ministers and employees must return advances that exceed documented expenses within 120 days.
- Unused money left in an accountable reimbursement plan should **not** be given to an employee as additional income or a "bonus" at the end of a budget year.

Accountable reimbursement plan

In accordance with IRS regulations 1.162-17 and 1.274-5T(f), the _____ Baptist Church hereby establishes an accountable reimbursement plan for all ministers and employees with the following terms and conditions:

1) The church will reimburse only reasonable ministry-related business expenses incurred by a minister or employee. Subject to budget limitations, such expenses will include:
   - Business use of automobile, up to the current IRS standard mileage rate;
   - Business travel away from home: transportation, lodging and meals on overnight trips;
   - Convention conference and workshop expenses;
   - Continuing education expenses;
   - Subscriptions, books and tapes, if related to ministry or employment;
   - Entertainment/hospitality expenses, if business connection requirement is met.
2) The minister or employee will account for each allowable expense in writing at least every 60 days. Documentation will include the amount, date, place, business purpose, and business relationship of person entertained for each expense. A receipt will accompany the documentation.
3) The minister or employee will return advances that exceed actual business expenses within 120 days.
4) Under this accountable arrangement, the church will not report reimbursed amounts as taxable income on the minister's or employee's Form W-2. The minister or employee should not report reimbursed amounts as income on Form 1040.

Accountable reimbursement arrangements can be set up in three easy steps.

1) Review last year's figures in each ministry-related expense category of the financial support review in *Compensation Planning Guide*.[15] Decide what types of expenses will be covered and adopt a written reimbursement policy that identifies these expenses. Determine the amount of money to be placed in the church budget to cover these expected expenses. The written policy and money to fund it should be approved through the church budget adoption process.
2) When ministers and employees incur an expense, they need to submit a written statement (expense account form) within 60 days to the church treasurer or other appropriate financial officer detailing each expense, including the purpose and amount. The minister or employee should attach a bill or receipt for items other than automobile expenses. The minister or employee should report the actual ministry-related mileage.
3) At least once a month, your church treasurer or chosen financial officer reimburses the minister or employee for all approved expenses. Reimbursed amounts are not reported as taxable income and are not included on a Form W-2. Advances can be given to provide for anticipated expenses, but any unused funds from the advance must be returned to the church within 120 days.

[15] GuideStone Financial Resources.

A Salary Package Hurts Ministers

Many churches provide the minister with a "lump sum" of money each year and ask him to divide it into a salary "package." Unfortunately, this approach is not allowed by the IRS. If audited, these ministers will be writing the IRS a check for a minimum of 25% of their reimbursement. Penalties will come to as much as 225% if intermediate sanctions are imposed.

Mistake 1: Using salary reductions to fund business expenses

Salary reduction occurs when the church agrees to pay a fixed amount each month. The minister submits his expenses and the amount is subtracted from the total and only the remainder is added to the W-2.

The IRS prohibits churches from reimbursing minister business expenses through salary reductions.[16] Churches who agree to pay a minister a specified annual income, and also agree to reimburse the minister's business expenses out of that package have "arranged to pay an amount to an employee regardless of whether the employee incurs business expenses."

As Richard Hammar explains "The IRS national office, confirmed that the regulation prohibits churches from using salary reductions to fund business expense reimbursements under accountable reimbursement arrangements."

Caution:

If a church "reimburses" the ministry-related expenses by simply reducing the minister's or employee's salary by the amount of the expense, these salary-reduction reimbursement arrangements are non-accountable. According to the IRS, the church must include the full amount of the non-accountable reimbursements on the minister's or employee's Form W-2. The minister or employee must report the amount as income on their tax return. Ministers and employees will pay more taxes if the church uses a non-accountable arrangement. Reimbursements under non-accountable arrangements are considered income for both income tax and Social Security purposes. The minister or employee can deduct business expenses only from SECA tax calculation and from Alabama State Income Tax.~~.~~

Mistake 2: Using salary package restructuring to fund business expenses

Salary "restructuring" is essentially the same as a salary reduction. Many ministers pre-designate a portion of the "package" as business expense and do not receive any of the reimbursement account funds unless he adequately substantiates his business expenses. Most seem to believe this arrangement should be permissible under the regulation. Unfortunately, the IRS disagreed with this conclusion in a 1993 private letter ruling.[17]

"In explaining its interpretation," Hammar says "the IRS noted that the tax benefits available to accountable reimbursement arrangements (i.e., the employer's reimbursements are not reportable as income to the employee, and are not subject to tax withholding) are based on the fact that the reimbursements are coming out of the employer's resources and accordingly it 'has an incentive to require sufficient substantiation to ensure that the allowance to the employee is limited to actual business expenditures incurred on the employer's behalf and for the employer's benefit.'"

The right way: Salaries, reimbursements and benefits are set separately by the church

Personal income includes salary and housing. This is true compensation or pay, the dollars on which the minister lives. The other two categories of financial support are reimbursement of ministry expenses and benefits, or protection coverages. These should be kept separate and not considered to be actual pay. They should be voted on separately.

Reimbursements for supporting ministry activities are the church's responsibility and are not salary. The minister has no choice about them. They are part of the church's cost of having a minister. Financing ministry activities is a key financial support category, to enable the minister to perform ministry.

Benefits, or protection coverages, which demonstrate that the church is a responsible employer, include insurance and a retirement plan.

[16] Treas. Reg. 1.62-2(d)(3)
[17] IRS Letter Ruling 9325023.

Step 4: Provide employee benefits

In addition to paying a salary and business-related expenses, most businesses provide their employees with benefits. Although your church is a ministry and not a business, sound business principles should still apply. This is a sign of good stewardship and concern for your church staff.

Employee benefits should include:

Medical, life and disability coverage;

Retirement plan contributions; and

Social Security assistance for ministers.

Providing a benefits plan for ministers and church employees:

Demonstrates obedience to biblical teaching

I Timothy 5:8 tells us, "*. . . if any provide not for his own, and especially for those of his own house, he hath denied the faith, and is worse than an infidel.*" The Greek word translated "provide" in this verse implies taking forethought, looking ahead to tomorrow's needs and providing for them today.

Saves taxes

The law allows your church to pay for medical coverage (for an employee and dependents) and disability and group term life insurance for your employee. When a church pays for this coverage as a benefit, the money is not reported as taxable income, although group term life insurance above $50,000 for employees is taxable. A church can also make tax-sheltered contributions to a minister's or employee's 403(b) retirement account like the Church Retirement Plan provided by GuideStone. These tax-saving ideas are not "loop-holes". They represent wise use of tax laws to help your minister and employees pay the least amount of tax that is legally owed. Again, it is a matter of good stewardship.

Provides protection for the church

By protecting each staff member with medical, life and disability coverage, the church also protects itself. Emergencies happen. Don't wait to find out one of your employees is uninsured after they come to you and need help to take care of an unpaid medical bill or lost wages. You don't want one of your employees to die leaving no source of financial support for family members. As the employer, you can guarantee that your employees' families have the coverage they need.

Extends employee service

Turnover of ministers and staff can weaken a church's ministry. A strong benefit plan shows your church really cares for the people it calls to serve and can be an advantage when you are seeking God's person for a ministry role you need to fill.

Types of employee benefits

Life, medical and disability coverage

GuideStone offers two programs that are designed exclusively for ministers and employees who work at least 20 hours a week for a Southern Baptist church or organization. GuideStone plans offer portability when a person is called to a new church, even in another state, so coverage can be maintained throughout one's ministry although plan options and costs may vary. The **Personal Security Program** provides coverage for churches with nine or fewer employees. This program is adaptable to a person's special needs. Different types of coverage are available and some may be purchased separately. These plans include:

- Medical coverage for employees and dependents
- Life insurance for employees, spouses and dependents;
- Disability coverage for employees,
- Dental coverage for employees and dependents; and
- Personal accident coverage for employees and spouses.

The Employer Security Program offers similar plans for churches with 10 or more employees.

Retirement

Social Security was never designed to provide enough income to live on in retirement and should be thought of as a supplement. Everyone needs to be investing for retirement, and ministers and church employees are no exception! Most financial planners suggest a contribution to a retirement account from employer and employee that equals 10-15% of the employee's annual income. The Church Retirement Plan is an IRC Section 403(b) tax-sheltered savings plan designed exclusively for employees of Southern Baptist churches and organizations.

Ministers (full-time, part-time and bivocational) who receive taxable income from a Southern Baptist church can be in this plan. Non-ministerial employees like secretaries, custodians and church-school employees can also participate if they receive taxable income from their church.

Church Retirement Plan features:

- Retirement contributions can be made by the employer and/or the employee.
- Contributions and investment earnings are sheltered from income taxes.
- Eligible ministers don't pay Social Security (SECA) taxes on their tax-sheltered contributions.
- Eligible ministers can save taxes in retirement by asking GuideStone to designate up to 100% of their retirement benefit as housing allowance. This is not true with IRAs or non-denominational retirement plans. Ministers who receive retirement benefits but continue their service in the ministry will have to pay SECA taxes on the part of their retirement benefits designated as housing.
- A disability benefit and a survivor benefit are provided by Baptist state conventions to eligible participants. These two benefits function much like disability and life insurance but there is no premium or extra charge to receive this added protection!
- A matching retirement contribution of up to $210 per year is also available from Baptist state conventions for eligible ministers who contribute at least $105 per month to the Church Retirement Plan. Contact the Alabama Baptist Convention State Board of Missions at 800.264.1225 extension 241 or GuideStone for eligibility requirements in Alabama.
- Plan participants select from more than 20 different investment funds that are managed by professional investment managers. All funds adhere to moral and ethical investment guidelines.

To receive information about the Church Retirement Plan, call (800) 264-1225 extension 241 or visit the Web site at www.GuideStone.org.

Financial assistance for churches with a limited budget

Does your church have an annual budget under $75,000? If so, your minister may be eligible to receive additional retirement contributions from GuideStone's Mission/Church Assistance Fund. Up to $600 is available in the first year of participation if your church contributes at least 2% of your minister's pay to the Church Retirement Plan. A total of up to $3,000 in additional contributions over five years is possible. Call GuideStone for details and to see if your church is eligible!

Social Security assistance

Churches that have non-ministerial employees are required by law to pay the employer portion of Social Security taxes. The employee portion of FICA taxes is then withheld by the church from the non-ministerial employee's salary.

Ministers pay SECA taxes, but they must pay all of this tax themselves. The law does not allow a church to pay a portion of the minister's SECA taxes as a non-taxable benefit. However, a church can legally provide the minister with additional income for use in paying this tax. This additional income is sometimes called a “Social Security Offset.” It usually equals one-half of the SECA tax rate, and when it is given to the minister by the church, it must be designated as taxable income on the Minister's Form W-2.

Step 5: Determine Personal Income

The next step is to consider how much money your minister and employees will need to provide adequately for their family. Remember, ministry-related expenses and the cost of benefits should not be considered part of personal income. A number of factors should be considered when determining personal income. Obviously, the financial strength of the church is a key factor. Other important considerations include:

> Let the elders who rule well be considered worthy of double honor, especially those who labor in preaching and teaching. (I Timothy 5:17)

Responsibilities and experience

Consider income levels of other professionals living in your community who have comparable responsibilities and experience as the people who serve your church. Those who are in ministry did not follow God's call into vocational service to become wealthy, but they also should not be expected to live on woefully inadequate wages.

Inflation

The cost of goods and services increased during the past year. Did your minister or employees receive a salary increase that kept pace with inflation? If not, it means even though they may be paid the exact same income as last year, the buying power of their income has actually decreased. Inflation significantly reduces long-term buying power and can greatly affect those who have faithfully served your church for longer periods of time with minimal or no raises. It is imperative for churches to consider inflation when reviewing pay each year.

Performance

Merit increases in recognition of exceptional service are appropriate. Paul instructed Timothy, "Let the elders who rule well be considered worthy of double honor, especially those who labor in preaching and teaching."

Housing allowance

The most important tax benefit available to ministers who own or rent their homes is the minister's housing allowance exclusion available under Section 107 of the Internal Revenue Code. Unfortunately, many churches fail to designate a portion of a minister's compensation as a housing allowance, and thereby deprive ministers of an important tax benefit. Ministers who own or rent a home may save taxes if a church designates part of their income as a housing allowance. Churches can never designate a housing allowance retroactively.

Expenses ministers may count when calculating housing allowance

- Mortgage payments (principal & interest)
- Rent payments
- Real estate taxes
- Property insurance
- Remodeling
- Homeowners' dues
- Pest control
- Utilities (gas, electricity, water, sewer, garbage pickup, local telephone service, cable or satellite, internet)
- Appliances and/or furniture (purchase or rental plus repair)

Anything except Meals & Maid service.

The **allowance** is the portion of the minister's salary made available through church action for the minister's use as housing. The **exclusion** is the amount the minister can legally exclude from taxable income. If the allowance exceeds the amount eligible for exclusion, the minister must report the excess on Line 7 of the 1040.

The maximum dollar amount eligible for **exclusion** is the lowest of (1) the designated amount, (2) the actual eligible housing expenses, or (3) the annual fair rental value of the home (furnished, including utilities). Ministers are responsible for substantiating their housing expenses and reporting their income correctly.

Although the costs of a mortgage qualify as part of the housing **exclusion**, costs for refinancing a principal residence or for a home equity loan qualify only if the proceeds are used for acquiring or maintaining a principal residence.

Ministers who live in a church owned parsonage are permitted to exclude from their gross income the fair rental value of the parsonage. A church can designate a housing allowance for a minister who lives in a church-owned

home as long as the minister has any out-of-pocket expenses while living in the parsonage (utilities, furnishings, repairs, etc.).

These expenses may be excluded from gross income to the extent that they do not exceed that portion of their compensation designated in advance as a minister's housing allowance by their employing church. The housing allowance is nontaxable for federal income taxes only. Ministers must pay Social Security taxes (SECA) on the fair rental value of a parsonage plus any housing allowance.

The church budget or finance committee should determine a total amount for personal income and then allow the minister to estimate how much of this amount should be designated as housing allowance.

Allowance[18]	Exclusion[19]
Requested by minister	Set by IRS rules
Approved by church	Minister's responsibility
Church **must not** track expenditures	Minister **must** keep receipts to claim
Not reported on the W-2	Minister reports total on 1040, Schedule SE and reports the excess on line 7 of the 1040

How to designate a housing allowance

1) The minister should present the church an estimate of housing expenses for the coming year.
2) The church must officially designate and document the amount of the minister's housing allowance in advance of payment. This should be done every year. (To be sure, the church doesn't forget to designate a housing allowance for the next year, the church should make the designation for all future years until it is changed by official church action. This is called a "safety net" designation.) The church should record this action in the church minutes and notify the minister.

If circumstances change, the amount designated as housing allowance may be revised during the year; however, no changes can be made retroactively. Remember there are limits on how much a minister can exclude from income as a housing allowance. As taxpayers, ministers are responsible for reporting their income properly.

Home equity allowance

Ministers who live in a church-owned parsonage are not able to build equity in a home. Many are concerned about how they will pay for housing when they retire. Churches can make added contributions (within legal limits) to a minister's Church Retirement Plan account that can be used to meet this need.

[18] The allowance is the amount available through church action for use as housing.
[19] The exclusion is the amount the minister can legally exclude from taxable income. If the allowance exceeds the amount eligible for exclusion, the minister must report the excess on Line 7 of the 1040.

Minister's estimate of housing expenses

To: _____ From: _____
(Church) (Minister)

Subject: Housing allowance for _____ (Year)

	ITEMS YOU MAY WISH TO CONSIDER	AMOUNT
1.	Down payment on a home	_____
2.	Mortgage payments on a loan to purchase or improve you home (include both principal and interest)	_____
3.	Real estate taxes	_____
4.	Property insurance	_____
5.	Utilities (electricity, gas, water, trash pickup, local telephone charges, cable, internet)	_____
6.	Furnishings and appliances (purchase, rental and repair)	_____
7.	Structural repairs and remodeling	_____
8.	Yard maintenance and improvements	_____
9.	Maintenance items (pest control, etc.)	_____
10.	Homeowners association dues	_____
11.	Miscellaneous	_____

Note: *You are not required to fill in these blanks to request a housing allowance. You may simply enter a total below. However, you may need to provide this information to the IRS in the event of an audit. Also, you must furnish the IRS with receipts.*

Total expenses _____

Date: _____ _____
(Minister's Signature)

Notification of housing allowance from the church to the Minister

To: _____ Date: _____
(Minister)

This is to advise you that at the business meeting of_____
Baptist Church held on _____, _____, your housing allowance for the year_____ was officially designated and fixed in the amount of $ _____. Accordingly, $_____ of the total payments to you during the year (and all future years until changed by official church action) will constitute your housing allowance.
[If a parsonage is provided, add: "You will also have rent free use of the home located at_____ the year_____. Utilities will be paid by the ___church ___ the minister."]

This action is recorded in the church minutes.

Under Section 107 of the internal Revenue Code, an ordained minister of the gospel is allowed to exclude from gross income the housing allowance paid as a part of compensation to the extent used to provide a home. (The minister may also exclude the value of a church-owned home.)

You should keep an accurate record of your housing expenses to provide proof of any amounts excluded from gross income in filing your federal income tax return. It is your responsibility as a taxpayer to accurately report your income.

Sincerely,

_____
(Clerk's signature)

Step 6: Complete a financial support worksheet

Now you know what makes up a financial support plan. Look over the financial support review you received from your ministers and church employees. Identify areas of inadequate support that should be addressed in this year's budget.

Use this worksheet to develop a comprehensive plan of financial support for your new budget year. May God direct and bless your efforts. Note: The worksheet is designed so that the three categories of financial support are not added together. This is intentional. Adding these together is an attempt to reconstitute the lump sum or package approach to compensation and all its inefficiencies and distortions. Putting these three categories of financial support on separate pages of the budget may farther reduce the tendency to lump these together.

Pulling it all together

1. Determine the needs of church employees by completing a financial support review annually. The information provided from the review will be essential to completing the committee's work of financial support planning and completion of the financial support worksheet.
2. Put financial support policies in writing. Be sure to include the basics of financial support that include ministry-related expenses, employee benefits and personal income.
3. Budget for ministry-related expenses separately from employee benefits and personal income. Do not make your employees take this money out of their cash salary.
4. Establish an accountable reimbursement plan for the purpose of fully reimbursing all church employees for expenses incurred while doing the church's work.

5. Designate money in the church budget to pay for medical, life and disability coverage for all full-time church employees. Do all you can financially to protect your employees and your church. Contact GuideStone at (888) 984-8433 for more information about protecting your employees.
6. For each eligible employee, contribute a minimum of 10% of personal income (within legal limits) to the Church Retirement Plan as an employer contribution.
7. If your church has an annual budget under $75,000, apply for the Mission/Church Assistance Fund. Up to $3,000 in retirement contributions may be available to ministers participating in the Church Retirement Plan.
8. Provide additional income to all ministers equal to one-half of their Social Security taxes. Remember that ministers are self-employed for Social Security tax purposes and must pay both halves of that tax, which is 15.3%. Designate this additional income as a Social Security Offset.
9. Budget for the employer's portion of FICA tax for non-ministerial church employees. Additionally, understand your federal payroll and employer reporting obligations and plan and budget for them.

Financial support worksheet

	Current	Survey	Proposed
1. Compensation (Personal Income)			
Salary			
Housing			
Total Personal Income:			
Proposed for next year			
2. Protection Coverages (Benefits, not compensation)			
Retirement (10% recommended)			
Family/Individual Medical Insurance			
Life Insurance			
Disability Insurance			
Long Term Disability Insurance			
Total Protection Coverages			
Social Security Offset (taxable income)			
Proposed for next year			
3. Ministry Related Expenses (Reimbusable Expenses, not compensation)			
Transportation			
Travel (over night required)			
Hospitality			
Conventions			
Conferences			
Books/Subscriptions			
Total Ministry Expenses:			
Proposed for next year			

10. Review the personal income of all church employees in comparison to the income of employees of other businesses or institutions in your town.
11. Consider providing a cost-of-living increase to assure church employees' salaries are keeping pace with inflation.
12. Review each church employee's job performance annually and provide merit increases when appropriate.
13. Designate the minister's housing allowance for eligible ministers. Remember that the housing allowance is one of two parts of the minister's personal income. Let the minister decide how this division should be made.
14. Complete the Financial support worksheet for each church employee. This completes the financial support planning process.

Information for the church treasurer

Tax-reporting requirements

- Ordained ministers should generally be treated as “employees” for income tax purposes concerning their regular pay from the church. The IRS requires your church to provide ministers and paid employees with a Form W-2 for filing with their income tax return. IRC section 107 allows a minister to exclude the housing allowance from gross income. Do not include the amount of a housing allowance on the W-2.
- Ordained ministers are considered self-employed for Social Security purposes and must pay self-employment tax (SECA) on cash salary, housing allowance and any Social Security Offset paid to them.
- A minister reports money received for weddings, funerals and other individual services along with related expenses on Schedule C. For these sources of income and related expenses, the minister is considered self-employed.
- GuideStone provides a Minister’s Tax Guide each year that includes specific information for church treasurers. This helpful guide is free upon request. Call (888) 984-8433 or visit www.GuideStone.org.

Publishing salary information

Why you should not list individual salaries:

We all have privacy rights. Ministers and other church employees are no exception. Sharing salaries is not a crime. There is no particular law that says you must not share salaries (There is a "Right to Privacy Act", but it has nothing to do with churches). The risk to your church if you share salaries is civil. In other words, you can be sued.

1) Privacy is an implied **civil right**.
2) Revealing salaries to anyone who wants to know is also bad for **employee morale**
3) Reimbursement is often misinterpreted by members as being salary, making it appear that the minister earns more than he really does.
4) In another area of compensation, it is not legal to reveal health information (including premiums) due to HIPAA.

Telling members about salaries, you have three choices:

1) The safest course of action is to combine all salaries into one line in the budget. On a separate line, list the combination of all protection coverages for all employees. List ministry expenses such as auto, convention, books and subscriptions in the ministry budget and treat them as accountable reimbursements.[20]
2) Same as number 1 except you can require members to come to the church office and request the information on individual salaries. They would agree in writing to keep it in confidential.
3) Same as number 1 except you can conduct a separate meeting to discuss salary. This would be open only to members.

Salaries and other personnel expenses should be listed as a total of all staff, not as separate individual salaries: This is done in three categories

Line Item One: Personal Income

1) This is true compensation or pay, the dollars on which the minister lives.
2) The other two categories of financial support should be kept separate and not considered to be actual pay.
3) **They should be voted on separately.**

I have heard we can be sued just for telling the congregation the pastor's salary. Is this true?

Yes. It has happened.

This is a part of the minister's right to privacy. There is **no law** that says you must not share (There is a "Right to Privacy Act", but it has nothing to do with churches). Privacy is an implied **civil right** based on the First Amendment of the Constitution. In order for your church to be sued, a minister or employee must file suit against you. It is far more likely that an employee other than a minister would be the one to sue.

What can we do to reduce this risk?

You can keep salary information confidential.

The safest course of action is to combine all salaries into one line in the budget. On a separate line, list the combination of all protection coverages for all employees. List ministry expenses such as auto, convention, books and subscriptions in the ministry budget and treat them as accountable reimbursements.

Don't our members have a right to know?

Yes, but to reduce risk, only members, and only under the condition that it must be held confidential.

Members can know, but to reduce the risk, non-members (including member's children, visitors and friends of church members) should not. You should not mail this information to non-members (in the newsletter). You should not leave copies of the budget lying around the church with this information. You should not talk about it in a business meeting with non-members present.

So what can we do to find a "safe harbor"?

One of two things:

You can require members to come to the church office and request the information. They would agree in writing to keep it in confidential.

You can conduct a separate meeting to discuss salary. This would be open only to members.

Are there any exceptions?

Yes. You may safely disclose salary information if the employee is told in writing before hiring.

If your church has a longstanding practice of disclosing the minister's salary, and the minister knew this before he was employed you may disclose salary information. This does not necessarily extend to non-ministers.

[20] For details, contact Church Compensation Services at the State Board of Missions by calling 1.800.264.1225, extension 241.

4) Salary includes the following categories (which are taxable):
   a) Cash pay.
   b) Housing (or parsonage) allowance (mortgage or rent, utilities, household furnishing, etc.).

Line Item Two: Protection Coverages (Benefits)

These coverages demonstrate that the church is a responsible employer. They include insurance and a retirement.

1) Social Security equivalent for ministers (taxable income).
2) The Personal Security Program administered by GuideStone provides these coverages:
   a) Term Life Insurance.
   b) Personal Accident Insurance.
   c) Disability Insurance.
   d) Medical Coverage.
3) The Church Retirement Plan (403b) administered by GuideStone meets the unique retirement planning needs of pastors, other ministers, and any eligible church employees (working at least 20 hours per week). In Alabama, every eligible participating employee receives two benefits. A **Disability Protection Benefit** of up to $500 for up to 5 years until age 65 and a **Survivor Protection Benefit** of up to $100,000, decreasing by age. In addition, the State Convention matches ministers' monthly contributions exceeding $52.50 on a $1 to $3 ratio. The Cooperative Program provides $1 for every $3 monthly contribution over $52.50 until the maximum match of $17.50 for a $105 monthly contribution by the minister and/or church. All contributions by the employee, church or state convention are 100% vested in the employee's retirement income account unless the church opts for a vestment schedule.

Line Item Three: Supporting Ministry Activities

These Items, which are the church's responsibility, are not salary. The minister has no choice about them. They are part of the church's cost of having a minister(s). Financing ministry activities is a key financial support category, to enable the minister to perform ministry. These expenses include "the tools of the ministry."

1) Transportation for visitation and other ministry.
2) Books, periodicals and other resources for sermon preparation.
3) Continuing education for development of ministry skills.
4) Expenses for participating in denominational conferences and conventions.
5) Funds for the ministry of hospitality in the minister's home.

Three Limiting Values	Pastor A Owns w/ Mortgage	Pastor B Owns w/o Mortgage	Pastor C Rents	Pastor D Pastorium
Designated Amount of Housing Allowance	$15,000	$15,000	$15,000	$4,500
Fair Rental Value of home furnished + utilities	$16,000	$6,500	Doesn't apply	Doesn't apply
Actual Expenses with Receipts	$17,000	$15,000	$12,000	$7,000
Amount of Housing Church Must Report on W-2	$0	$0	$0	$0
Amount of Housing Church Must Report to minister on church letterhead	$15,000	$15,000	$15,000	FRV of house + $4,500
Amount Minister May Excluded	$15,000	$6,500	$12,000	$4,500
Income Minister must report on Line 7 of 1040	$0	$8,500	$3,000	$0

Section 3: Charitable Contributions

There are six requirements that must be satisfied in order for a contribution to be tax deductible.

If a donor stipulates a contribution be spent on a designated individual, no deduction is allowed unless the church exercises full administrative control over the donated funds to ensure they are being spent in furtherance of the church's tax-exempt purposes.

Members cannot deduct contributions designated for the pastor or staff that can be spent as the staff wishes unless the amount is added to the pastor or staffs W-2 Form as income.

The IRS looks at the substance and not the form of a transaction as the controlling factor. Did the donor intend to make a contribution to the church or did the donor only intend to benefit the designated individual by using the church to obtain a tax deduction on an otherwise non-deductible gift?

1. *The donation must be a gift of cash or other property (IRS §170)*

a) Cash (includes cash, checks, bank transactions) and property are both deductible, but are reported differently. Cash amounts are recorded; property gifts are listed and described without assigning a value.
   i) The church may give a letter describing the property (Example: HP laptop computer model 8560P) but the church may not assign or include a value. It is the donor's responsibility to determine the value or have the item appraised.

b) The value of services rendered is not a deductible gift.
   i) The IRS does not allow tax deduction for gifts of time or labor.
   ii) A plumber who donates his time and materials may receive tax credit for materials (**but <u>not</u> for the labor**).

c) Rent-free building space is not deductible. The value of rent-free building space made available to a church cannot be claimed as a charitable contribution.

2. The gift must be delivered before the close of the year

a) Charitable contributions must be claimed in the year in which they are delivered to the church.

b) Delivery date is:
   i) The date it is actually received by the church (Post-dating a check does not help). If the check is delivered after the close of the year, it counts in the new year.
   ii) One exception is a check that is **mailed through the United States Postal Service** to the church—it is deductible in the year the check is mailed (and postmarked), even if it is received early in the next year. The postmark counts as delivery date (keep the envelope).
   iii) ACH, credit card donations, etc. are claimed in the year transacted even if not shown on the church's bank account until January. (Transaction date will be noted on the bank statement)

3. The gift must be unconditional & without personal benefit to the donor

c) The donor cannot create restriction on how the church may use a charitable contribution. Any gift given must be free of strings for the church to use as it pleases.

d) The donor may designate a gift, but designation is a request for the church to restrict the use of the gift. It is entirely up to the church to agree to this request or to spend the money as the church chooses.

e) The church may create a self-imposed restriction as to the use of a gift. This may come about in at least two ways:
   i) The donor may request a restriction through a designated gift; which is in turn accepted by the church and granted a restriction as to its use.
   ii) The church may create a restricted fund and then allow donors to contribute.

f) If a contribution is accepted as restricted, it is accepted under a trust agreement, and cannot be converted to other uses without the donor's written permission.

i) If permission is not given, the money may be returned at the original donor's request.
ii) When it is returned, the IRS requires that it be reported on a 1099 as income to the original donor.

g) Items that cannot be counted as contributions:
i) Trip payment (exception: mission trip for the benefit of the ministry of the church).
ii) Purchases such as tapes, CDs, books, etc.
iii) Meals
iv) Gifts designated to a class you teach or a ministry you lead (unless complete control is given to the church).

4. The gift must be to or for the use of a qualified charity

h) The donation must be made to or for the use of the church or a fund designated **by the church** to a qualified organization.
i) Direct contributions to church staff members, missionaries, or any other individual, are not tax-deductible, even if they are used for religious or charitable purposes.
ii) The gift cannot be given with a guarantee of who gets it. To guarantee a recipient, you give up deduction.
iii) Contributions generally are deductible only to the extent they exceed the value of any premium or benefit received by you in return for the contribution.
iv) Churches are a qualified charity and have that status without applying for it. SBC churches may obtain proof of their status through the Executive Committee of the SBC.
v) "To or for the use of" indicates church control

5. The gift must not be in excess of the amounts allowed by law

i) There are limits on the amount of a contribution that can be deducted. Currently that amount for most contributions is 60% of AGI. (50% in years prior to 2018)
j) In some cases, contributions that exceed these limits can be "carried over" and claimed in future years.

6. The gift must be properly substantiated

k) The church must provide the appropriate substantiation.
l) The method will vary according to the type of gift and the IRS applicable rules.
m) Additional rules apply to the donation of vehicles.

Contributions which are not deductible: [21]

1) A contribution to a specific individual.
2) A contribution to a non-qualified organization.
3) The part of a contribution for which you receive or expect to receive an equal financial or economic benefit.
4) The value of your time or services.
5) Your personal, living, or family expenses.
6) Certain contributions of partial interests in property.

Gifts earmarked for an individual are not deductible

Internal Revenue Service Publication 526 says one cannot deduct contributions to specific individuals even if they are needy or worthy of the gift. This includes contributions to a qualified organization like a church if indicated that the contribution is for a specific person. The Internal Revenue Service, in Publication 526, made a statement under the heading of disaster relief about designated (restricted) contributions to individuals stating, "You may deduct contributions earmarked for `Earthquake Disaster Relief or for other disaster relief organizations...However **you cannot deduct contributions earmarked for relief of a particular individual or family**."

[21] *IRS Publication 526*

Mission Trips

A mission trip is a tax-deductible event as long as there is no significant element of personal pleasure or vacation. Richard Hammar suggests to have at least a 6 hour work day doing your mission work; or to have 80% or more of your itinerary devoted to the mission work.

Mission trip donation

According to Richard Hammar's 2018 Church and Clergy Tax Guide, page 434.

1. Adult paying for their own mission trip is tax deductible (non-refundable).
2. Church members not going may donate to the mission trip fund (but cannot designate a particular person) and that donation is tax deductible.
3. Adult paying for their own teenager to go is not tax deductible **unless** the funds are made in "trust" or in a legally enforceable arrangement for the benefit of the church."

This means that we need to inform parents at the planning stage that they are donating to the church unconditionally and that they cannot get their money back. This should be in writing.

Groups Paying Their Own Way

When groups pay their own way such as Carpenters for Christ, Campers on Mission, and many of the Disaster Relief Teams it is still a tax-deductible event. Participants would keep their receipts and number of miles (14 cents per mile) for the non-cash portion of contributions on the Schedule A. The participant would obtain an acknowledgement letter from the church stating the dates of the trip and the purpose to prove that it is a mission trip instead of a pleasure trip.

Foreign Activities

Paying an American citizen direct doing oversees mission work

1. Volunteer. Keep the person a volunteer by paying expenses; require receipts and require return of any additional money; or
2. Paid – 1099 or W-2

Paying a Foreign National

1. In the US, may pay travel expenses, but additional is most likely a violation of their travel visa
2. Or use IRS form 1042 subject to backup withholding of 30%
3. In another country – no reporting but record keeping requirements
4. Check Specially Designated Nationals list at www.treasury.gov

Record Keeping

1. Keep receipts
2. Records of activities
3. Pictures

Repurposing Designated Money

Repurposing designated money requires a 2-step process

1. A vote of the church
2. Obtaining permission from the donors

- You cannot borrow the funds either
- "If you repurpose the funds without all the donor's permission or the court's permission, then in some states it is called fraud and in other states its called theft. The penalties are assessed against the individuals who wrongfully repurposed those funds." – Frank Sommerville

Repurposing designated money that originated from church action and the general fund is not a problem

- For example: The church contributes $1000 each month to a contingency fund or emergency fund from the general fund. Those amounts could be changed or repurposed

Establishing a Designated Fund

Designated fund or scholarship fund

1) Designated (restricted) contributions are those that are made to a church with the stipulation that they be used for a specified purpose. If the purpose is an approved project or program of the church, the designation will not affect the deductibility of the contribution.
2) Contributions designated (restricted) to a **group or organization within the church** (i.e. Sunday school class) for the class' exclusive use and under its total control is not a deductible contribution to the church. (The class is not a 501(c) (3) organization.) The church cannot add this designated (restricted) contribution to a member's giving record because the church does not have any control over the contribution.
3) To qualify as a charitable contribution, gifts must be made "to or for the use of the church." The church must control the funds. If the giver intends for the gift to benefit a specific individual instead of supporting the ministry the church the gift is generally **not** deductible.
4) In establishing a policy, the church should keep in mind that Internal Revenue Service Publication 526 says one cannot deduct contributions to specific individuals even if they are needy or worthy of the gift. This includes contributions to a qualified organization like a church if indicated that the contribution is for a specific person. The Internal Revenue Service, in Publication 526, made a statement under the heading of disaster relief about designated (restricted) contributions to individuals stating, "You can deduct contributions earmarked for `Scholarship Fund'...However you cannot deduct contributions earmarked for a scholarship for a particular individual."
5) A donor normally may not make a deductible contribution to a scholarship fund from which a family member (grandchild, child, sibling, spouse, parent or grandparent) will benefit.

Suggested steps in establishing a designated (restricted) fund:

When a designated (restricted) fund is established, it must be controlled and administered by the church. Do not receive any money until the church according to its policy has established the fund. To be a deductible contribution, the fund establishment must predate any contributions.

1) The church should establish a policy stating the process by which church members can request the establishment of a new designated (restricted) fund.
   a) It should state that no monies will be received for a new designated (restricted) fund until it has been approved and established by the church.
   b) This policy should be in writing.
2) Members should be made aware that the policy has been established and will be followed.

Suggested steps in administering a designated (or restricted) fund:

1) When a designated fund is established, it must be controlled and administered by the church. Do not receive any monies until the church has established the fund. Because, to be a deductible contribution the fund establishment must pre-date any contributions.
2) Determine the purpose of the fund.
   a) Why is this designated (restricted) fund needed?
   b) How will it further the church's mission?
3) Write a governing policy.
   a) How and under what conditions will the funds be disbursed?
   b) If persons are involved, what are the requirements for each recipient, (how much can they receive, what are the disbursement procedures and what are the accounting requirements)?
   c) How will monies be received for the fund?
   d) What are reporting requirements to the church?
   e) It's always good to determine in advance how any monies left in the account will be spent once the purpose of the designated (restricted) fund is complete.
4) Establish a procedure for disbursement of the fund:
   a) Designate a committee to control the fund disbursement based upon the fund policy and disbursement procedure.

b) This makes all distributions from the fund subject to the unrestricted control and discretion of the committee.
c) Then communicate the policy and procedures to all prospective donors.

5) Establish accountability procedures require reports from recipients as appropriate.
   a) Take periodic expenditure reports to the church and give proper substantiation to the contributors.
   b) An audit procedure should be established in the event of an IRS request for information about the church's designated (restricted) fund policy and procedures.
6) **Keep a confidential list of contributors.** It is important to keep a list of contributors and the amount of their contribution, because the church probably will want to close the designated (restricted) account after it has met its purpose and the fund may still have monies left.
7) **Leftover money.** It is always best to determine in advance how any money left in the account will be spent once the purpose of the designated (restricted) fund is complete.

Designated (or restricted) fund management

"Designated (restricted) contributions" are those that are made to a church with the stipulation that they be used for a specified purpose. If the purpose is an approved project or program of the church, the designation will not affect the deductibility of the contribution. Contributions designated (restricted) to a group or organization within the church (i.e. Sunday school class) for the class' exclusive use and under its total control is not a deductible contribution to the church. The church cannot add this designated (restricted) contribution to a member's giving record because the church does not have any control over the contribution.

Designated Funds Policies Suggestions

1. All designated funds must be approved in advance of contribution.
2. All designated ~~-~~funds are under the control of the church
3. (Have an exit strategy for some funds) Leftover funds from a project revert back to the general fund
4. If a designation is not an approved fund, the church will not accept the gift.
5. A designated offering may not be for a specific person (except and adult paying for their own or teenage child mission trip). A person may suggest a need, but must be willing to allow the benevolence committee or other appropriate committee to decide how to best use the money.
6. A mission trip is a ~~tax deductible~~tax-deductible event as long as there is no significant amount of personal pleasure or vacation. Gifts given by persons going or even by others are deductible.
7. Gifts given toward a mission trip will benefit others going or revert to the general fund if the participant does not go.
8. Designated funds should be broad rather than narrow in focus. Building Fund rather than Family Life Center Fund; Music fund rather than choir robe fund, etc.
9. Staff love offerings are under church control.
10. Discuss a designated offering to a budget line. Does the church allow that? Does it increase the budget line? Or is it simply the first money spent and assuring that there are dollars available for that budget line if cash flow is tight? Does it carry over to next year (for most churches the answer would be "no")? (Note: most churches allow this practice, but it can be a dangerous one.)

Benevolence Policies Needed

1. Not to a specific individual. (This is not illegal, but it is not deductible. The church may desire a policy against doing this to avoid confusion.)
2. A donor may suggest a needy person, but must allow the benevolence committee to decide.
3. If the church decides to take a love offering for a specific needy individual, the benevolence committee will monitor the need and return extra amounts to the general fund or benevolence fund.

Policies must be approved in advance and must be communicated periodically to the congregation. Today's policies do not affect yesterday's designated giving.

Substantiation

Contribution statements must be received before return filed by taxpayer

Advise donors at the end of the year not to file their income tax returns until they have received a written acknowledgement of their contributions from the church. The IRS uses the term "contemporaneous" and may deny deduction if the return was filed before receiving a proper statement from the church. See IRS Publication 1771. Note: some church software programs are adding the statement date to the top of the contribution statement. While not required, this could cause a problem if the taxpayer filed before that Contribution Statement date.

An acknowledgement must be provided in order for the donor to deduct the gift. The acknowledgement must

a) It must be written.
b) It must include.
   i) The name of the organization
   ii) The date (each cash donation itemized with date)
   iii) The amount of cash you contributed,
   iv) A description but not value of any property you contribute,
   v) Whether the qualified organization gave you goods or services. If the only benefit you received was an intangible religious benefit such as admission to a religious ceremony that generally is not sold in a commercial transaction outside the donative context the acknowledgement must say so and does not need to describe or estimate the value.
   vi) If the only goods or services the church provides are "intangible religious benefits," then the receipt must contain a statement to that effect.
c) Contribution statements must be received before a return is filed by taxpayer. The taxpayer must receive the acknowledgement on or before the earlier of:
   i) The date the return is filed for the year the contribution was made
   ii) The due date including extensions, for filing the return.
   iii) Other considerations:
      (1) The receipt must identify the donor by name (a Social Security number is not required).
      (2) For contributions of non-cash property valued by the donor at $250 or more the receipt must describe the property. **No value may be stated.**
      (3) Be sure the receipt shows separately each individual contribution of cash or property of $250 or more. Do not lump sum the contributions together, but all contributions may be listed on a single statement.

Cash gifts

Less than $250 the IRS will accept:

iv) A canceled check.
v) A receipt **or** letter from church. It must have the church's name, the amount and the date

$250 or more the IRS will only accept a receipt from church

vi) It must be in writing; may be electronic; signature is not required
vii) Identify the donor by name (a social security number is not required)
viii) Must itemize each gift with a date. See IRS Publication 1771.
ix) Must state "**No goods or services were provided to the donor in exchange for contribution.**" or "**Only intangible religious benefits were provided to the donor in exchange for contribution**."

The acknowledgement must be received by the donor on or before the date donor files a return.

Quid Pro Quo gifts

A Quid Pro Quo occurs when the donor makes a contribution and receives something of value in exchange for a portion of the contribution. To illustrate, the youth sell spaghetti for $25 a plate. If the value of the meal is $10, the value of goods received is listed as $10 and the contribution as $15.

$75 or less

x) Deductible to extent they exceed value of the goods or services provided in exchange.
xi) No receipt is needed.

More than $75 the IRS will only accept a receipt from church

xii) A receipt must be furnished to the donor **upon receipt of donation**.
xiii) The receipt must inform the donor that only a portion of contribution is deductible. It informs donor that amount deductible is limited to the excess of amount of cash contributed over value of goods or services provided in return.
xiv) Provide a good faith estimate for the value of goods or services furnished to donor.
xv) Good faith estimate is not needed if only token goods or services are provided to donor having a value of $107 or 2% of the amount of the contribution, whichever is less. Or token if donation is at least $53.50 and value of item is $10.70 or less. See IRS Publication 1771, page 5. (Amounts stated are for 2017)

Non-cash gifts

i) Must state "**No goods or services were provided to the donor in exchange for contribution.**" or "**Only intangible religious benefits were provided to the donor in exchange for contribution**."

Non-cash gifts other than stock

No cash contribution should actually be posted.

Valued at less than $250 substantiate with a receipt that lists:

i) Donor's name
ii) Church's name
iii) Date and location of contribution,
iv) Description (but **not value**) of property

$250 or more

v) Everything listed above, plus
vi) Description of the property (**no value can be stated**)

$500 to $5,000, provide a letter with:

vii) Name and address of church
viii) Date and location of contribution
ix) Detailed description of property
x) Donor must complete front (Section A, Part I, and Part II if applicable) of IRS Form 8283
xi) Donor must supply cost or other basis of property value.
xii) If less than the donor's entire interest in property is donated during the tax year, an explanation of the total amount claimed as a deduction in current year must be included
xiii) Terms of any agreement between donor and church relating to use, sale, or disposition of property

More than $5,000

xiv) Everything under previous, plus
xv) Donor must obtain qualified appraisal of donated property
xvi) Complete a qualified appraisal summary (the back side of Form 8283) and have summary signed by the appraiser and a church representative:
xvii) Completed Form 8283 is then enclosed with the Form 1040 on which the charitable contribution deduction is claimed

xviii) If the donated property is sold or exchanged within 3 years of receipt, the church must complete Form 8282.
(1) It is due to IRS within 125 days of disposition.
(2) A copy must also be provided to the donor.

Special rules for gifts of automobiles[22]

j) **All rules above apply**, but additional strict substantiation rules
k) If the claimed value for a vehicle exceeds $500 and the charity sells it, the donor's deduction is limited to the amount of the sales proceeds.
l) A donor can deduct the vehicle's market value, if higher, in these cases:
i) If the charity makes significant use of it or makes material improvements to it.
ii) Or if the charity gives the vehicle or sells it at a discount to a poor person who needs transportation.
m) Charities must give quick acknowledgments of vehicle donations.
i) In general, no deduction is allowed unless donors receive acknowledgments within 30 days after the date that the vehicle is sold or within 30 days of the donation date if the charity keeps the car.
ii) If the vehicle is sold, donors must be informed of the selling price on Form 1098-C.
(1) Complete Form 1098-C so donees can report the necessary details to the donor and IRS. The IRS will cross-check deductions with the reports. For details, see IRS Notice 2005-44.
iii) Use of car-pricing guides is limited. If the church keeps the car, the **private-party sale price** must be used as the value for donations, **not the higher dealer retail price**.

Stock gifts

n) When you receive a gift of stock:
i) No cash contribution should actually be posted.
ii) Give the donor a receipt for the gift on the day the transaction occurs (the day the certificate is delivered or the day it was mailed if the USPS is used).
o) The receipt must include:
i) The date the certificate is delivered (or the day it was mailed if the USPS is used)
ii) The donor's name
iii) The church's name
iv) The number of shares given and
v) The name of the company.
p) In addition a donor who gives:
i) Publicly traded stock:
(1) Valued at more than $500 must complete Section & Part I. of Form 8283. This requirement applies even if the stock is valued at more than $5,000 (in which case the stock is exempt from the qualified appraisal requirement).
(2) N**o** qualified appraisal or qualified appraisal summary required.
ii) Non-publicly traded stock
(1) Valued at $10,000 or less is **not** required to obtain a qualified appraisal and complete a qualified appraisal summary (Form 8283).
(2) Valued at more than $10,000 **are** required to obtain a qualified appraisal no earlier than 60 days before the date of the gift and complete a qualified appraisal summary (Form 8283).

[22] *Kiplinger Tax Letter*.

Substantiation of Gifts to your church

Cash	Quid Pro Quo	Non-cash other than stock
Less than $250 1. Canceled check endorsed as "charitable contribution" 2. A receipt or letter from church a. Church's name b. Amount c. Date	**$75 or less** No receipt needed	**Valued at less than $250** No cash contribution actually posted Substantiate with a letter that lists: 1. Donor's name 2. Church's name 3. Date and location of contribution, 4. Simple description (but not value) of property
$250 or more Receipt from church 1. In writing; 2. Identity donor by name 3. May combine all contributions, even those for $250 or more, in a single amount or it can list each contribution separately to aid donors in resolving discrepancies 4. Must state "no goods or services to the donor in exchange for contribution" or "only intangible religious benefits 5. Must be received by donor on or before the date donor files a return,	**More than $75** Receipt from church 1. Informs donor that amount deductible is limited to the excess of amount of cash contributed over value of goods or services provided in return. 2. Provides good faith estimate of value of goods or services 3. No need if only token goods or services are provided to donor having a value of $102 or 2% of the amount of the contribution, whichever is less.	**Valued at $250 or more** No cash contribution actually posted 1. Same as $250 or more cash plus 2. Describes the property (no value needs to be stated) **Valued at $500 to $5,000** No cash contribution actually posted 1. Donor must complete front section A, part I, of IRS form 8283 a. Name and address of church b. Date and location of contribution c. Detailed description of property d. Fair market value of the property at time of the contribution, including description of how value was determined e. Cost or other basis of property 2. If less than donors entire interest in property is donated during current year, an explanation of total amount claimed as a deduction in current year: 3. Terms of any agreement between donor and church relating to use, sale, or disposition of property **Valued at more than $5,000** Everything under previous, plus 1. Donor must complete front (section A, part I, and part II) of IRS form 8283 2. Donor must obtain qualified appraisal of donated property 3. Complete a qualified appraisal summary (the back side of form 8283) and have summary signed by the appraiser and a church representative: 4. Completed form 8283 is then enclosed with 1040 on which the charitable contribution deduction is claimed

When you receive a gift of stock:
Should not be posted as a cash contribution.

Give the donor a receipt for the gift on the day the transaction occurs (the day the certificate is delivered or the day it was mailed if the USPS is used). The receipt must include: 1) The date (the day the certificate is delivered or the day it was mailed if the USPS is used) 2) The donor's name 3) The church's name 4) The number of shares given and 5) The name of the company.

Special rules for gifts of automobiles
All rules above apply, but additional strict substantiation rules apply. b) If the claimed value for a vehicle exceeds $500 and the charity sells it, the donor's deduction is limited to the amount of the sales proceeds. A donor can deduct the vehicle's market value, if higher, in these cases: (1) If the charity makes significant use of it or makes material improvements to it or (2) if the charity gives the vehicle or sells it at a discount to a poor (IRS's term) person who needs transportation.
Charities must give quick acknowledgments of vehicle donations. In general, no deduction is allowed unless donors receive acknowledgments within 30 days after the date that the vehicle is sold or within 30 days of the donation date if the charity keeps the car. If the vehicle is sold, donors must be informed of the selling price on Form 1098-C. Complete Form 1098-C so donees can report the necessary details to the donor and IRS. The IRS will then cross-check deductions with the reports. For all the details, see IRS Notice 2005-44. **Use of car-pricing guides is limited.** If the church keeps the car, the private-party sale price must be used as the value for donations after June 3, 2005, not the higher dealer retail price.

No credit may be given for gifts of time or services.

Non-cash Gifts Checklist (Other than Stock and Vehicles)

Key Concepts

1. This is a gift of property, not cash. Do not post on the contribution statement (unless your computer software includes a section for non-cash contributions). Give a receipt or letter.
2. Do not give a value to the donation.

Checklist

- ☐ 1. Give a receipt or letter when received. (On church letterhead) "Thank you for your contribution of a _____ received by _____ Baptist Church on September 12, 2021. No goods or services were provided in exchange for your contribution."
- ☐ A. This must also include (1) a description of the property and (2) the location of the property if applicable.
- ☐ B. If less than the donor's entire interest in property is donated during current year, you must include an explanation of total amount claimed as a deduction in current year.
- ☐ C. You must include the terms of any agreement between donor and church relating to use, sale, or disposition of property.

1.2.

- ☐ 2. If valued at more than $500 donor must complete IRS form 8283 Section A, Part 1.
  - ☐ If the value exceeds $500 donor must also include (1) a **detailed** description of the property, (2) the fair market value of the property at time of the contribution, including description of how the value was determined (3) Cost or other basis of property. Form 8283.

- ☐ 3. If valued at more than $5000:
- ☐ Donor must obtain a qualified appraisal.
- ☐ Donor must complete IRS form 8283 Section A and Section B.
- ☐ Qualified appraiser must complete Part III Declaration of Appraiser.
- ☐ Church must complete Part IV Donee Acknowledgement.

- ☐ 4. If the church sells the property (valued more than $500) within 3 years the church must complete IRS Form 8282 within 125 days of the sale.

See www.irs.gov for more information. IRS Publication 526

Gifts of Automobiles (Vehicles) Checklist

Key Concepts

1. This is a gift of property, not cash. Do not post on the contribution statement. Give a receipt in the form of a letter or a 1098-C. (1098-C required if more than $500).
2. Do not give a value to the donation.
3. A donation of a vehicle (car, boat, motorcycle, airplane, etc.) may not have the same tax advantages as a few years ago. In most cases, if the church sells the car within 3 years, the donor will only be able to deduct the amount of the sale price. A few churches will not accept an automobile due to the record keeping requirements.

Checklist

- ☐ 1. Give a receipt or letter when received. Must be within 30 days of date received or 30 days of date sold (best to do this within 30 days of the date received).
- ☐ (On church letterhead) "Thank you for your contribution of a YEAR MAKE MODEL car received by _____ Baptist Church on September 12, 2021. The VIN NUMBER is _____. No goods or services were provided in exchange for your contribution."
- ☐ Form 1098-C accomplishes this purpose and is required if valued at more than $500.

- ☐ 2. If the car is worth more than $500, complete an IRS Form 1098-C (30 days of date donated or date sold). Copy "A" goes to the IRS if more than $500. See www.irs.gov/pub/irs-pdf/i1098c.pdf

2.3.

- ☐ 3. If valued at more than $500 donor must complete IRS form 8283 Section A, Part 1.

- ☐ 4. If valued at more than $5000:
- ☐ Donor must obtain a qualified appraisal.
- ☐ Donor must complete IRS form 8283 Section A and Section B.
- ☐ Qualified appraiser must complete Part III Declaration of Appraiser.
- ☐ Church must complete Part IV Donee Acknowledgement.

- ☐ 5. If the church sells or disposes of the property (valued more than $500) within 3 years the church must complete IRS Form 8282 within 125 days of the sale.

See www.irs.gov for more information. See Publication 4302.

Gifts of Publicly Traded Stock Checklist

Key Concepts

1. This is a gift of property, not cash. Do not post on the contribution statement (unless your computer software includes a section for non-cash contributions). Give a receipt or letter.
2. Do not give a value to the donation.
3. A gift of publicly traded stock is a good way for the donor to give, receiving the full value of the stock as a deductible contribution, but not paying tax on the capital gain.

Checklist

- ☐ 1. Give a receipt or letter when received. (On church letterhead) "Thank you for your contribution of 100 shares of XYZ stock received by _____ Baptist Church on September 12, 2021. No goods or services were provided in exchange for your contribution."

- ☐ 2. The date should be the date stock certificate was received in church office or the date transferred into the church's brokerage account or if mailed the post mark date.

- ☐ 3. If valued at more than $500 donor must complete IRS form 8283 Section A, Part 1.[23]

- ☐ 4. Sell the stock (Most churches have a policy to sell the stock immediately).

- ☐ 5. If your church instructs (and uses pledges), you may count the amount toward the pledge (but do not record the amount on the contribution statement). Some church computer software will allow a donation such as this to count toward the pledge.

See www.irs.gov for more information

[23] No qualified appraisal or qualified appraisal summary required for **publicly traded stock,** even if the stock is valued at more than $5,000.

Fundraiser Issues

Attorney and CPA Frank Sommerville reports that the IRS is examining fund raising efforts by non-profits especially concerning the creation of an employee relationship. Some organizations have been charged with back taxes and penalties. Here are the issues with fundraisers churches should note:

1. Private Benefit and Potential Loss of Tax-Exempt Status. This is actually number one on the IRS list of concerns over these types of fundraising activities in which persons receive money for their trip or activity according to how much they work.

2. State Sales Tax. There is no exception to the obligation to collect state sales tax when selling items to the public. The State Department of Revenue stated, however, that they consider it a casual sale when a church or charity does so only 2 or 3 times per year.

3. Income tax withholding and matching FICA. If persons receive credit for money they have collected through work towards a trip, for example, then they become employees, subject to withholding and matching FICA. Some booster organizations have been responsible for thousands of dollars of back taxes and penalties for fundraising activities they thought was on a volunteer basis.

4. Employee issues. If persons receive credit during a fund raiser through work, then they become employees subject to labor laws such as the Fair Labor Standards Act – minimum wage and overtime.

5. Child labor law issues. If the fundraiser creates an employment issue, then child labor laws would also be in effect.

6. Unrelated Business Income Tax. If the activity is regularly carried on, it may become subject to unrelated business income tax. One CPA gave the example that selling Christmas trees met the standard of "regularly carried on," because the activity was for the entire selling season. See IRS Publication 1828. Note: there are many rules and exceptions to UBIT, so a church should consult a CPA, to see of the activity is subject to the tax.

7. Adult supervision concerns. Many churches raise funds by teenagers babysitting. Many do not have adequate adult supervision and do not have enough adults to follow the "Two Adult Rule" in each classroom. Extra adult supervision should also be in effect during such activities as mowing lawns.

Suggestions for Fund Raisers

It is generally easy to avoid the potential problems associated with fund raisers. Here are some suggestions:

1. Do not create an employee relationship. When there is a direct relationship between hours worked and money credited toward one's own trip, an employee relationship is created. There are two ways to handle this problem.

1. The first is to evenly divide the money among all who go on the trip. Many churches do not wish to do this because it is unfair to those who work hard and rewards those who do little work.
2. Another solution to this problem is to have a team or committee and award the money based on many criteria rather than on hours worked – financial need, participation in the projects, participation throughout the year in Sunday School and youth activities, initiative, attitude, etc. (but don't make these so stringent that they become work).

2. Have policies about fund raisers. One suggested policy is that if a person cannot go on the trip, their fundraising money will be used to assist others to go, or to revert back to the youth fund or general fund.

3. Limit the number of fund raisers. Fundraisers take us away from our primary tasks as a church such as discipleship. Empower a team or committee to decide and plan a very limited number of fund raisers.

4. Have adequate adult supervision at all times.

Section 4: Administering Church funds

Church funds generally fall into three categories:

Undesignated or general fund

This fund contains no restricted (designated) funds and the church can use the fund as it desires to carry out the purposes of the church. All unrestricted contributions, gifts and income should be recorded in this fund.

i) To qualify as a charitable contribution, gifts must be made "to or for the use of the church." The church must control the funds. If the giver intends for the gift to benefit a specific individual instead of supporting the ministry the church the gift is generally not deductible.

ii) In establishing a policy, the church should keep in mind that Internal Revenue Service Publication 526 says one cannot deduct contributions to specific individuals even if they are needy or worthy of the gift. This includes contributions to a qualified organization like a church if indicated that the contribution is for a specific person. The Internal Revenue Service, in Publication 526, made a statement under the heading of disaster relief about designated (restricted) contributions to individuals stating, "You may deduct contributions earmarked for `Earthquake Disaster Relief or for other disaster relief organizations...However you cannot deduct contributions earmarked for relief of a particular individual or family."

A word about church organizations, groups and classes collecting offerings

Contributions designated to a **group or organization within the church** (i.e. Sunday school class) for the class' exclusive use and under its total control is **not a deductible contribution** to the church. (The class is not a 501(c)(3) organization.) The church cannot add this designated (restricted) contribution to a member's giving record because the church does not have any control over the contribution.

Designated, unrestricted fund[24]

b) Designated unrestricted contributions are those that are not solicited by the church, but are made to the church with the **request[25]** by the donor that they be used for a specified purpose. If the purpose is an approved project or program of the church, the designation will not affect the deductibility of the contribution. If the donation is not an approved project or program of the church, the gift must be treated as a gift to the general fund in order to be deductible to the donor.

c) The church **may** honor the donor's request, but **is not legally bound by it.**

i) The donor's gift must be made to or for the use of a qualified organization.

ii) The church may redirect the funds as desired.

iii) Members cannot deduct contributions to the pastor or staff that can be spent as the staff wishes unless the amount is added to the pastor or staffs W-2 Form as income.

iv) The Internal Revenue Service looks at the substance and not the form of a transaction as the controlling factor. Did the donor intend to make a contribution to the church or did the donor only intend to benefit the designated individual by using the church to obtain a tax deduction on an otherwise non-deductible gift?

Designated, restricted fund[26]

d) Designated restricted contributions are those that

i) Are made to a church with the stipulation **by the church** that they be used for a specified pre-approved project or program of the church,

ii) Where the church announced the intent to limit the use of the funds, and

iii) The church overtly or tacitly implied that members should give to the fund.

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[24] Keith Hamilton, "Designated Fund Management," *Tax-Fax Up-Dates*, 2001, 1.

[25] The donor's gift must be made to or for the use of a qualified organization in order to be deductible. A designation cannot be allowed to direct the gift to a destination chosen by the donor and still be deductible.

[26] Keith Hamilton, "Designated Fund Management," *Tax-Fax Up-Dates*, 2001, 1.

iv) If the purpose is an approved project or program of the church, the designation will not affect the deductibility of the contribution.
v) Since the church imposed the restriction before receiving the gift, these funds may only be spent in the manner the church set forth. **It is imperative that the policy creating the fund specify the alternate use of the money in the event the project is called off, or the use of the any unused remainder once the project is complete.**

e) In essence, the church is agreeing to hold the designated, restricted funds in trust until the church carries out the donor's objective.
f) If the church chooses to accept the donor's request and places the money in a separate fund or even publishes the amount given and the designation, then the church has announced the intent to limit the use of the funds, and has or tacitly implied that members should give to the fund. This creates a self-imposed Trust agreement that is legally binding.

Administering the general fund[27]

Suggested steps in administering the general fund:

a) **Receiving** is the manner in which members contributions are received is important.
b) **Counting** is the manner of counting and verifying of monies is also important.
c) **Depositing** procedures (deposit slips, depositing, verification of the deposit and correcting and discrepancy) should be established.
d) **Disbursing** is governed by the authority which comes from the church through its adopted budget.
e) **Recording** requires a church financial record system be selected for recording all receipts and disbursements of church funds.
f) **Reporting** to the church is accomplished by a monthly report of the financial condition of the church.
g) **Auditing** can be done by an outside firm or internally by an auditing committee, an accountant, or bookkeeper. Have an annual official audit of receipts, disbursements, accounting records and receipts.
h) **Bonding** should be secured for any church member who handles significant amounts of church money.

Administering the designated, unrestricted fund

Designated, unrestricted fund[28]

Designated, unrestricted funds should be placed in the general fund if the church has no plans to honor the request. If the church honors the designation, or plans to do so in the foreseeable future, a designated fund can be established.

Administering the designated, restricted fund

Suggested steps in establishing a designated, restricted fund:

When a designated, restricted fund is established, it must be controlled and administered by the church or its designee. Do not receive any money until the church has established the fund according to policy. To be a deductible contribution, the fund establishment must predate any contributions.

a) The church should establish a policy stating the process by which church members can request the establishment of a new designated (restricted) fund.
   i) It should state that no monies will be received for a new designated, restricted fund until it has been approved and established by the church.
   ii) It should state how **leftover money will be used.** It is always best to determine in advance how any money left in the account will be spent once the purpose of the designated (restricted) fund is complete.
   iii) This policy should be in writing.
   iv) Members should be made aware that the policy has been established and will be followed.

[27] See page 67 for details.
[28] Keith Hamilton, "Designated Fund Management," *Tax-Fax Up-Dates*, 2001, 1.

b) Determine the purpose of the fund.
   i) Why is this fund needed?
   ii) How will it farther the church's mission?
c) Write a governing policy.
   i) How and under what conditions will the funds be disbursed?
   ii) If persons are involved, what are the requirements for each recipient, (how much can they receive, what are the disbursement procedures and what are the accounting requirements)?
   iii) How will monies be received for the fund?
   iv) What are reporting requirements to the church?
   v) Determine in advance how any monies left in the account will be spent once the purpose of the designated, restricted fund is complete.

Suggested steps in administering a designated, restricted fund:

d) When a designated fund is established, it must be controlled and administered by the church. Do not receive any monies until the church has established the fund. Because, to be a deductible contribution the fund establishment must pre-date any contributions.
e) Establish a procedure for disbursement of the fund:
   i) Designate a committee to control the fund disbursement based upon the fund policy and disbursement procedure.
   ii) This makes all distributions from the fund subject to the unrestricted control and discretion of the committee.
   iii) Then communicate the policy and procedures to all prospective donors.
f) Establish accountability procedures require reports from recipients as appropriate.
   i) Take periodic expenditure reports to the church and give proper substantiation to the contributors.
   ii) An audit procedure should be established in the event of an IRS request for information about the church's designated (restricted) fund policy and procedures.
g) Keep list of contributors. It is important to keep a list of contributors and the amount of their contribution, because the church probably will want to close the designated (restricted) account after it has met its purpose and the fund may still have monies left.
h) **Leftover money** It is always best to determine in advance how any money left in the account will be spent once the purpose of the designated (restricted) fund is complete.

Returning a charitable contribution to a donor[29]

TAX-FAX Up-dates, Church Financial Services, Volume 2002, Number 3.

General rule.

a) A charitable contribution is a gift of money or property to a charitable organization. Like any gift, a charitable contribution is an irrevocable transfer of a donor's entire interest in the donated cash or property. Since the donor's entire interest in the donated property is transferred, it, generally, is impossible for the donor to recover the donated property. As we will see, there are a few exceptions to this general rule.

Returning undesignated contributions.

b) Most charitable contributions are undesignated, meaning that the donor does not specify how the contribution is to be spent. An example would be a church member's weekly contributions to a church's general fund. Undesignated contributions are unconditional gifts. A church has absolutely no legal obligation to return undesignated contributions to a donor under any circumstances. In fact, there are a number of problems associated with the return of undesignated contributions to a donor. These include:
c) **Inconsistency**. As noted above, a return of a donors contributions would be completely inconsistent with the church's prior characterization of' the transfers as charitable contributions. As already noted, a charitable contribution is tax-deductible since it is an irrevocable gift to a charity. If a church complies

[29] Keith Hamilton, "Returning a charitable contribution to a donor," *TAX-FAX Up-dates Church Financial Services* 2002/3 (2002): 1.

with enough donors' requests to refund their contributions, then this raises a serious question as to the deductibility of any contribution made to the church. Contributions under these circumstances might be viewed as no-interest demand loans—that is, temporary transfers of funds that are recallable by donors at will. As such, they would not be tax-deductible as charitable contributions.

d) **Amended tax returns**. Donors who receive a "refund" of their contributions would have to be informed that they will need to file amended federal tax returns if they previously claimed a charitable contribution deduction for their "contributions". This would mean that donors would have to file a Form 1040X with the IRS.
e) **Church Liability**. In order to avoid the potential penalty for "aiding and abetting" a taxpayer in the substantial understatement of tax, the church would need to notify the IRS of' the return of' the contribution. This notification would need to include the donor's name, address, social security number, the date and amount of the earlier contribution, and the date the contribution was returned. Failure by the church to notify the IRS of the return of the contribution could result in a penalty of $1,000 for aiding and abetting in the substantial understatement of tax. The church should inform the donor if it plans to notify the IRS of the returned contribution.
f) **Conclusion**. Churches should resist appeals from donors to return their undesignated contributions. There is no legal basis for doing so, even in emergencies. Do not honor such requests without the recommendation of' an attorney.

Returning designated, restricted contributions.

Often a donor will make a "designated," restricted contribution to a church. That is, the donor [accepts the church's offer to] designate how the contribution is to be spent. Designated, restricted contributions are held by the church "in trust" for the designated purpose. So long as the church honors the designation, or plans to do so in the foreseeable future, it has no legal obligation to return a donor's designated, restricted contribution.

What if a donor contributes money to a building fund [established by the church] and the church later abandons its plans to construct a new facility? Such contributions are conditioned on the church pursuing its building program. When the condition fails, the contribution is revocable at the option of the donor. Should the church refund designated, restricted contributions to donors under these circumstances? There are a number of possibilities, including the following:

g) **Donors can be identified.** If donors can be identified, they should be asked if they want their contributions returned or retained by the church and used for some other purpose. Ideally, donors should communicate their decision in writing to avoid any misunderstandings. Churches must provide donors with this option in order to avoid violating their legal duty to use "trust funds" only for the purposes specified. Of course, churches should advise these donors that they will need to file amended tax returns if they claimed a charitable contribution deduction for their contributions in a prior year.

h) **Donors cannot be identified**. A church may not be able to identify all donors who contributed to the building fund. Under these circumstances, the church has a variety of options. One option would be to address the matter in a meeting of church members. Inform the membership of the amount of designated (restricted) contributions in the church building fund that cannot be associated with individual donors, and ask the church members to take an official action with regard to the disposition of the building fund. In most cases, the church membership will authorize the transfer of the funds to the general fund. Note that this procedure is appropriate only for that portion of the building fund that cannot be traced to specific donors. Another option is to ask a court for authorization to transfer the building fund to another church fund.

12 basic Internal Control Practices for Baptist Churches[30]

1) Train and provide orientation for the new treasurer[31]

a) The approach used in many churches is like giving a driver's license to a teenager after a brief discussion and no road test!
b) When instructions are given orally, newcomers quickly forget them.
c) If the transition is quick, or when there is a gap between the old former treasurer leaving and the new one taking office, the procedures and methods are not passed on to the newcomer.
d) Transition in industry may take two weeks or longer. Transition in a church often takes less than one hour.
e) If there is no overlap in service, new treasurers and financial secretaries are not in a position to take in all of the instructions. They may not even see the records until they are working on them.
f) With poor instructions, there is no continuity of internal control procedures from year to year.
g) Sound internal control procedures must be developed, installed, and maintained year after year.

2) Establish and follow written, up-to-date accounting procedures.

a) Prepare an accounting policies and procedures manual to guide the accounting and financial reporting process.
    i) A manual provides continuity and allows the church to maintain high standards of internal control.
    ii) Most manuals emphasize the processing aspects of accounting (which accounts to use) and financial reporting (who receives which report and when). Internal control procedures should be included.
b) The manual should specify the procedures used in:
    i) Preparing the budget
    ii) Handling transactions
        (1) Receiving cash or other assets, whether in the offering or at the office.
        (2) Disbursing cash, whether by check or through the petty cash fund.
        (3) Processing of Transactions
        (4) The forms and procedures used to record both cash receipts, including memorials or gifts, and cash disbursements.
        (5) The forms and procedures used to record gifts of property and securities.
        (6) The accounts used to record the transactions, together with a written description of the types of transactions that should be entered in each account.
    iii) Assuring reliable record keeping
        (1) The procedures used to reconcile totals of cash receipts and cash disbursements against individual amounts.
        (2) The procedures used to reconcile church cash records against bank records.
    iv) Preparing and distributing financial reports
        (1) Congregation.
        (2) Leadership (finance team or committee, program leaders, pastor, business administrator and so on).
        (3) Others (regional/national church offices, the bank, the Internal Revenue Service, etc)

3) Separate financial duties

a) There are three basic types of financial activities performed within a church:
    i) **Authorization of transactions** (approval of transactions)
    ii) **Recording of transactions** (bookkeeping)
    iii) **Custody of assets** (collecting, counting, depositing)

[30] "Fifty Internal Control Practices for Every Church: A Test"; *The Church Guide to Internal Controls;* Richard Vargo; Church Law and Tax Report; Springville, MO.
[31] "Fifty Internal Control Practices for Every Church: A Test"; *The Church Guide to Internal Controls;* Richard Vargo; Church Law and Tax Report; Springville, MO.

b) The treasurer should not do all of this alone. Each of these functions should be performed by a different individual.
    i) For churches with no financial secretary, the best method is:
        (1) The stewardship committee authorizes transactions.
        (2) The treasurer records all transactions.
        (3) The ushers collect the offering and the counting committee counts and makes all deposits.
    ii) For churches with a financial secretary, the best method is:
        (1) The treasurer authorizes transactions.
        (2) The financial secretary records all transactions.
        (3) The ushers collect the offering and the counting committee counts and makes all deposits.
c) The main rules:
    i) Record keeping and cash are never handled by the same person
    ii) The handling of offerings is always controlled by at least two people
    iii) The same persons don't count each Sunday.
    iv) The handling of other receipts of cash is always controlled by at least two people
    v) At least two signatures are required for all checks
        (1) Without this control, one person is in charge of the cash.
        (2) Authorize five persons to sign checks, any two of which will suffice for any check.
        (3) It is best **not** to have the treasurer be one of the check signers.
        (4) To protect the integrity of the pastor and professional staff members, it is best **not** to have any of them be one of the check signers.
    vi) Reconciliations of all bank accounts are prepared monthly by a person who is not involved in writing checks

4) Create a paper trail for every financial transaction

a) Receipts
b) Disbursements

5) Record all gifts

a) Retain offering envelopes (similar to the handling of monthly bills, invoices, and other business documents).
b) Maintain contribution records for members
    i) Members receive quarterly notices of their contributions.
    ii) Notices of contributions sent to each member are photocopied.
    iii) Members are instructed to report any irregularities or errors in their notices of contributions to the ***internal audit committee***.

6) Safeguard accounting records at all times

a) Lock facilities when not in use.
b) Keep records at the church. If this is impossible, keep back-up copies at church and never let the same person write checks and reconcile statements.
c) Back-up computers often. Have internet security. Consider a dedicated computer with no other web surfing.
d) Safeguard blank, unused checks at all times

7) Audit accounting records and the underlying internal controls annually

a) Why
    i) A dishonest accountant would want a job where work was never checked.
    ii) Statistics show that people who misappropriate assets are very often “faithful” employees who perhaps have never even taken vacations, who have perpetrated their schemes over many years, and, interestingly, who have never felt guilty.
    iii) Some believed that the money they had taken was a trifle compared with their value to the church. They believed themselves underpaid and under recognized.

b) Only an independent CPA can conduct a professional audit. If retaining a CPA is out of the question, the audit could be conducted by the internal audit committee or a group of members who report to this committee.
c) Operate an internal audit committee
    i) Enlist members with accounting or business backgrounds.
    ii) They perform some tests of the accounting records.
    iii) Their tests should be done on a periodic basis (possibly quarterly and annually), but tests done on a sporadic, surprise basis are also beneficial.
    iv) If possible, the church's external accountant should specify which tests to perform and which procedures to follow.
    v) Internal review needs:
        (1) Review the church's procedures and controls.
        (2) Determine whether they are functioning as originally intended.
        (3) Safeguard assets.
        (4) Check the accuracy of the accounting information.
        (5) The mere existence of a committee like this is a psychological deterrent to a person considering embezzlement.
    vi) External assistance.
        (1) A yearly audit by a certified public accountant is the best plan.
            (a) An audit involves the investigation and examination of the transactions that underlie the church's financial reports and results in an opinion of those reports.
            (b) In this process, the auditor follows established auditing standards.
                (i) A thorough review of the internal control system is included.
                (ii) Any defects in the internal control system are identified.
                (iii) Many churches find that external audits are prohibitively expensive
                (iv) Ask the certified public accountant for a community service fee.
                (v) Request an audit during his or her slow period,
        (2) Churches that cannot afford audits may consider obtaining a certified public accountant to conduct a review.
            (a) A review is less expensive than an audit.
            (b) A review involves the inquiry and analysis necessary to provide the accountant with a reasonable basis for expressing limited assurance that the financial statements are presented fairly.
            (c) A review does not involve
                (i) A study or evaluation of internal accounting controls,
                (ii) Tests of the accounting records, or
                (iii) Other procedures ordinarily performed during an audit.
            (d) If the accountant becomes aware that information is incorrect, incomplete, or unsatisfactory, additional procedures necessary to achieve limited assurance are performed.
        (3) Consider alternating audits and reviews to reduce costs.

8) Implement security

a) Screen new personnel
    i) 70% of all embezzlers are repeat offenders.
    ii) Screening prospective (and probably underpaid) employees and volunteers is not a pleasant task.
b) Bond all who have access to cash
    i) Types of bonds
        (1) A fidelity bond
        (2) Blanket bonds.
    ii) Bonding gives the church a quick and easy way to handle actual or suspected cases of theft, forgery, embezzlement, or other misappropriation of assets.

9) Educate your contributors

a) Encourage members to use offering envelopes
b) Encourage members to use checks in making their offerings (and other gifts as well)
c) Provide an educational piece such as a bulletin insert. See www.churchlawtoday.com

10) Handle receipts with care

a) Count cash in a secured area
b) Rotate the persons who count each Sunday.
c) Verify that the contents of the offering envelopes are identical to the amounts written on the envelopes.
d) At least two money counters should open the envelopes, remove the contents, and compare the amount taken from each envelope with the amount written on the face of the envelope.
    i) If the amounts are not identical, which may occur frequently, the actual amount enclosed should be written on the envelope, followed by the initials of the money counter.
    ii) The offering envelopes serve as the basis for posting to members' contribution records. They must be correct before being turned over to the financial secretary or treasurer.
e) Restrictively endorse all checks received as soon as possible
    i) Use a rubber stamp to place a restrictive endorsement on all checks received.
    ii) Have each check endorsed by money counters immediately after the amount is verified against the envelope.
    iii) Include "For deposit only", the name of the bank, the name of the church and the account number.
f) Deposit cash as soon as possible after it is received.
g) All cash received deposited in the bank
    i) Deposit cash receipts intact without being reduced by disbursements.
    ii) Paying any expenses out of the available cash is a bad practice.
    iii) Make all disbursements by check or through the petty cash fund.
h) Give a receipt prepared in triplicate to the person bringing in a cash contribution.
i) Prepare an offering envelope to create a record of the gift when members bring in contributions during the week.
j) Give collection reports to the financial secretary or treasurer for entry into the accounting records, and send a copy to the internal audit committee for subsequent audit purposes.

11) Handle disbursements with care

a) Instruct the bank *in writing* never to cash checks payable to the church
b) Make all disbursements by serially numbered checks
c) Never sign blank checks
d) Mark and retain all voided checks
e) Prohibit preparing a check to "Cash"
f) Cancel (mark paid) supporting documents when checks are issued
g) Record all expenses in the correct accounting period
h) Approve invoices for goods and services by a qualified person before payment is made
i) Check invoices for accuracy before paying
j) Vendor approval process. Have a person(s) who is not a part of the check writing process approve new vendors.

12) Handle accounts with care

a) Properly authorize transfers among bank accounts
b) Reconcile account balances in "the books" with the amounts presented in financial reports

Additional Internal Controls and Electronic Transactions

Review the vendor list

Have a knowledgeable person not directly involved in the disbursements process review the vendor list:

1. Review vendor name, address, invoice/payment history. Look for:
2. Multiple vendors with the similar names
3. Vendor addresses that appear to be personal home addresses
4. Multiple payments of the same dollar amount (especially round dollar amounts or amounts just below certain thresholds).
5. Significant payments to employees for other than normal travel-type reimbursements
6. Bank may offer an "ACH Fraud Filter" – automatically stops all ACH debits except those the customer specifically pre-authorizes.

Use positive pay

A service offered by nearly every bank. Matches the account number, check number, and dollar amount of each check presented for payment against a list of checks previously authorized and issued by the organization. Protects against altered checks and counterfeit checks Items that do not match are not cleared...they are flagged and the organization is notified of the discrepancies.

Online bill payment

1. Reduces paper and is more environmentally friendly.
2. It saves time and costs over manual processes. A recent article in The Wall Street Journal stated that a business check costs between $4 and $20 to fully prepare and process and that the cost of writing a check can be as much as five times the cost of an electronic payment.
3. Streamlines the approval process
   a. Facilitates approvals and payment from people in multiple locations, including traveling.
   b. Process generally involves scanning, faxing, or emailing bills to the payment processor. And then, automated processes take over - invoices are routed to pre-defined approvers.
   c. More secure than paper checks – bank account information is not making its way through the mail system

The setup of the approval process is critical.

Ensure segregation of duties – the same person responsible for final approval of payment should not be the check preparer or accountant.

Electronic payroll *processing*

Problem scenario (a) One person is responsible for all phases of payroll processing, including maintaining personnel records, processing payroll details, and transmitting the direct deposit file to either employees or to the third-party payroll processor. No other parties closely review payroll reports.
Possible schemes: fictitious employees; manipulation of pay amounts

Solution: Segregate duties (a) Do not have one person responsible for all aspects of payroll maintenance, preparation, and approvals.
(b) The person responsible for executing direct deposit transactions should be separate from the person who prepares payroll and should review the payroll detail for propriety before submitting the file for direct deposit.
(c) Payroll details should be reviewed by an appropriate (and independent) official for each payroll, in a controlled manner. (Direct receipt of reports, direct download of reports)

Section 5: Tax Changes and Sample Policies

Facts and Figures

	2018	*2019*	*2020*	*2021*
Mileage Rates				
Mileage Rate Business	54.5 cents	58 cents	57.5 cents	56 cents
Mileage Rate Charitable	14 cents	14 cents	14 cents	14 cents
Mileage Rate Medical	18 cents	20 cents	17 cents	16 cents
Retirement				
Retirement Contributions Limit	$55,000	$56,000	$57,000	$58,000
Exclusion elective deferrals	$18,500	$19,000	$19,500	$19,500
Over 50 catch up	$6,000	$6,000	$6,500	$6,500
IRA max contribution	$5,500	$6,000	$6,000	$6,000
IRA max contribution over 50	$6,500	$7,000	$7,000	$7,000
Social Security				
Maximum earnings subject to SS Tax	$128,700	$132,900	$137,700	$142,800
Earnings limit to avoid reduced benefit for workers age 62-Full Retirement Age receiving SS benefits (If minister includes housing)	$17,040	$17,640	$18,240	$18,960
SS COLA	2%	2.8%	1.6%	1.3%
Federal Income Tax				
Income Tax personal exemption	$0	$0	$0	$0
Income Tax standard deduction Married filing jointly	$24,000	$24,400	$24,800	$25,100
Child tax credit	$2,000	$2,000	$2,000	$3,000

Important 2018 Tax Changes affecting Ministers and the Church

1. Most Americans will no longer be able to itemize deductions since Congress doubled the Standard Deduction. The new law also eliminated personal exemptions.
2. Congress eliminated Employee Unreimbursed Business Expenses. Ministers serving a church will no longer be able to write off business expenses which points to the need for the church to provide an Accountable Reimbursement Plan. Congress also made moving expense taxable.

Minister Housing Allowance News

On March 15, 2019 the U.S. Seventh Circuit Court of Appeals unanimously reversed a lower federal district court, which had ruled in late 2017 against the longstanding housing exclusion for ministers. Instead, the appeals court likened the ministers' housing exclusion to other similar benefits in the tax code for work-related housing, finding the provision permissible under the First Amendment and well-established legal precedent.

New W-4 Form for 2020 and beyond

If you have multiple jobs or if your spouse works, be careful as you complete a new W-4, or you will have too little withheld for 2022 and will owe money next tax season. The new W-4 is simpler considering marital status, multiple jobs and the child tax credit.

New IRS Forms

- W-4 New Form to work with standard deduction, child credit and lack of deductions
- 941. Added lines for new FMLA, Credits for keeping employees on the job, etc.
- 1099 NEC – Non-Employee Compensation. Do not use 1099-MISC

New Child Tax Credit for 2021

The Child Tax Credit is $3000 per child for children under age 18 and $3600 for children under age 6 and is fully refundable. Be careful not to count it as a part of withholding and receive it monthly at the same time.

New W-4 Form Cautions

The new W-4 contains 5 sections and is very easy for the employee. If there are multiple jobs in the home, be sure to check the box in #2. Concerning the Child Tax Credit, step 3, be sure to not claim it on withholding and receive it monthly at the same time. The W-4 calculations do not work well for ministers so obtain the Minister Estimate of Taxes at www.alsbom.org/ccs. Click on Administrator Resources.

New Overtime Rules

Effective January 2020 the Department of Labor announced a rule that makes more than a million more American workers eligible for overtime. The new rule boosts the standard salary level to $684 per week (equivalent to $35,568 per year). Above this salary level, eligibility for overtime varies based on job duties. Ministers remain exempt employees even if not making $684 per week.

New Way to Give to Your Church – Qualified Charitable Distribution

If the church receives a Qualified Charitable Distribution, the check will come directly from the IRA provider. The paperwork will explain that it is a QCD. You are not to include this as a tax-deductible contribution on the giving statement. Instead you should acknowledge it with a letter on church letterhead: "Thank you for your donation of $10,000 given to First Baptist Church on January 25, 2020. This was a Qualified Charitable Distribution direct from your IRA, so it will not be reported on your contribution statement. No goods or services were given in exchange for your contribution."

New due date for W-2, W-3, A-3 and 1099

W-2, W-3, A-3 and 1099s are due January 31. The instructions for 1099 state "if you are reporting nonemployee compensation in box 7." For Alabama and Federal, whether you file electronically or not.

GuideStone changes to the Church Retirement Plan protection benefits

The changes will not impact anyone currently receiving a disability benefit. Here are the main changes:

1. Participants must contribute a minimum of $50 per month to be eligible for the protection benefits.
2. The disability benefit will be payable for up to 5 years. The person must qualify before age 65.
3. The survivor benefit (similar to life insurance) remains the same.
4. For ministers, the matching dollars remain the same but will be paid annually rather than monthly.

Reporting Health Coverage on W-2 is optional for less than 250 employees

The value of employer provided healthcare is reported on the W-2 in box 12 with the code letters "DD". It is optional for all employers of less than 250 employees. Report the amount paid by both the employer and employee. See http://www.irs.gov/uac/Form-W-2-Reporting-of-Employer-Sponsored-Health-Coverage.

Payment of Individual Health Insurance

Premiums paid or reimbursed for individual plans are taxable. Group healthcare plans continue to be a tax-free benefit. GuideStone plans are group plans even if only one employee is covered. Another exception is a group fewer than 2. Healthcare reimbursements must be a part of a properly written plan and a part of a group plan with two exceptions, the Qualified Small Employer HRA and the Individual Coverage HRA. See p 16.

Qualified Small Employer HRA

A Qualified Small Employer HRA is an arrangement offered by an eligible employer that meets the following criteria:

1. The arrangement is funded solely by an eligible employer, and no salary reduction contributions
2. The arrangement provides, after the employee provides proof of coverage for the payment to, or reimbursement of, an eligible employee for medical care expenses incurred
3. The amount of annual payments and reimbursements do not exceed $5,300 ($10,700 for family)

4. The arrangement is provided on the same terms to all eligible employees of the eligible employer.
5. To be an eligible employer that may offer a QSE HRA, the employer may not be an applicable large employer (ALE) and may not offer a group health plan to any of its employees.
6. Written plan and 90-day notice required. Best resource - http://elainesommerville.blogspot.com/

New 2020 Individual Coverage HRA

The ICHRA offers greater flexibility than the QSEHRA and may be helpful to medium and larger churches. Churches should consult a professional concerning the requirements and to see if it is the best option.

IRS Forms 1095 required

IRS Form 1095 is required to reflect whether the employee had health insurance and whether employer provided coverage complies with the Affordable Care Act.

1) 1095-A will be sent to participants in the Government Marketplace to show proof of insurance. These participants may also be required to complete an 8962 to justify the tax credit received. (employee responsibility, no employer requirement)
2) 1095-B will be provided by insurance companies to prove that the employee and family had health coverage
3) 1095-C will be required of all employers who have 50 or more Full Time Equivalents. This form proves that the employer provided insurance to the employee complying with the minimum essential coverage. One form is completed for each employee. In addition, the employer must file a 1094-C transmittal form.

Discrimination Rules and Health Plans. Regulations not completed

1. The Affordable Care Act prohibits discrimination in favor of more highly paid employees. An example of discrimination would be for ministers to receive health coverage while support staff who work 30 hours per week or more do not. Such rules are already in effect for FSAs, HRAs and HSAs.
2. The IRS has promised regulations so currently this provision of the law is not enforced.
3. Concerning health insurance, the difference between the policy of the lesser paid employee and the greater paid employee may result in a lawsuit.

Ministers Who Have Opted Out of Social Security

Ministers who have opted out of Social Security should keep their approved IRS form 4361 in a safe, safety deposit box, etc. There have been cases in which the IRS has lost the form, the minister cannot produce the form and the IRS denies the exemption.

Be Aware of Scams involving the IRS

For the past few years, criminals have called and emailed unsuspecting tax payers demanding immediate payment of a supposed tax debt. The IRS has tried to inform the public that the first IRS contact is always by mail. So now the criminals have shifted to an official looking IRS letter in which everything appears real except the address to send the payment.

IRS Allows Conversion of money in traditional retirement plan to Roth

The IRS is now allowing participants to convert traditional retirement plan dollars to Roth by paying the taxes. Ministers should first consider the housing allowance exclusion before doing this.

Alabama Immigration Law Requires E-Verify

E-Verify is an internet-based system of US Citizenship and Immigration Services (USCIS) that allows businesses to determine the eligibility of their employees to work in the United States. Alabama has made the process simpler for small employers at http://verify.alabama.gov.

1. Federal law does not require E-verify. It is required by the Alabama Immigration Law.
2. **All** employers in Alabama are required to use USCIS E-verify
3. See the USCIS web site at www.uscis.gov/everify

4. E-Verify does not replace the I-9. Both are required.
5. E-Verify participation poster & Right to Work poster required in English & Spanish

Misclassification of Employees – Increased Enforcement

The IRS is very concerned about worker misclassification. If a worker should be classified as an employee, but instead is given a 1099, it could result in the church paying back FICA and penalties. The IRS has tests to determine if a worker is an employee or a contract worker. See page 7. If in doubt, the IRS says to treat the person as an employee. Ministers who serve a church should always receive a W-2. (except supply or interim)

New Enforcement measures

IRS computers are programmed to look for persons who only have a 1099 or receive a 1099 from one employer for many years. These persons might be employees. CPAs and tax preparation software ask clients this question about 1099s: "Did you receive this 1099 because you are a contract worker? Or are you really an employee and should have received a W-2?"

IRS Voluntary Worker Classification Program

If the employer realizes that a worker has been misclassified as a contract worker, and wants to change the status, the IRS has a new Voluntary Worker Classification Program. File Form 8952 at least 60 days prior to when you want to reclassify the employee and pay the calculated tax. Then begin treating the worker as an employee (at the beginning of a quarter).

Cell Phones

Congress removed the cell phone from listed property: IR-2011-93 on September 14, 2011. An employer may provide a cell phone primarily for business use or provide a reasonable cash allowance with no record keeping requirements. The phone must be primarily business use and not compensatory (not merely a perk). The IRS has also stated informally that it will treat tablet devices in the same manner as cell phones according to ECFA.

EFTPS Required

Electronic Tax Deposits are now required for all tax deposits. To enroll or get more information about EFTPS, call 800-555-4477, 800-945-8400 or www.eftps.gov/eftps. However, smaller churches with withholding of less than $2500 for the current quarter may pay the amount owed with the IRS form 941-V.

Other news

Alabama Child Labor Law - http://www.alalabor.alabama.gov/uc/ChildLabor/

The new act reforms Alabama child labor enforcement standards, transferring the permitting process **from the public school system to the Department of Labor**. In addition, new record keeping requirements and administrative penalties have been added. Under the new system, work permits are no longer required for each minor employed. In its place, **employers are required to obtain a Child Labor Certificate** to employ minors.

403(b) Retirement Plan Document Required.

1. **Written Plan Documentation.** GuideStone Financial Resources has provided more than 95% of the plan document. The church must have the rest of the written plan indicating eligibility requirements, provisions for matching (if any), etc. GuideStone has made this process easy with a fill-in-the-blank form at www.guidestone.org. Click on 403(b) regulations in the Retirement tab.
2. **Timely Plan Contributions**. Salary reduced amounts must be deposited within 15 business days of the end of the month in which the amounts were deducted from pay.
3. **Employer "sign-off" on certain plan transactions** such as account loans and hardship withdrawals.
4. **Information Sharing Requirements.** When an employer has more than one provider, information sharing will be required between the church and the providers. If the church has only one provider, it is much simpler.

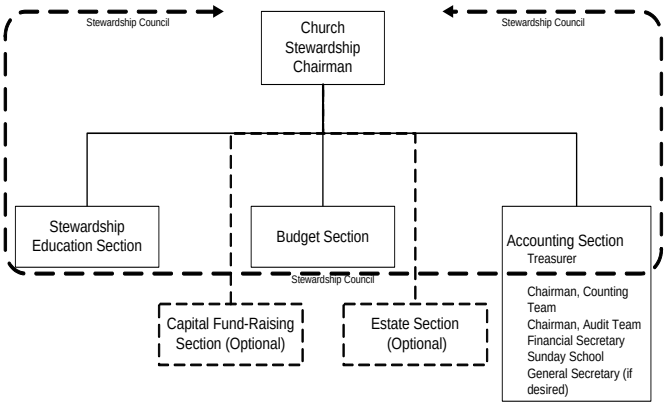
Financial Policies Every Church Needs

1. Written Financial procedures and Internal Control procedures
2. Designated contributions
    a. Must be approved in advance of contribution.
    b. If funds are left over, will return to general fund (or other appropriate fund). See page 53
3. Benevolence
    a. not to individuals
    b. controlled by the church
    c. appropriate committee will determine the need and will return remainder to the benevolence fund.
4. Record retention
    a. Forever
        i. Deeds
        ii. Historical Documents
        iii. Business meeting minutes
        iv. Insurance policies
        v. Applications, references, background checks pertaining to working with minors
    b. 7 Years
        i. Anything having to do with taxes and the IRS
        ii. Contribution statements
5. Accountable reimbursement plan
6. Employee benefits

Sample Financial Policies

The Church Stewardship Team Policy

The Church Stewardship Team



Organization

The preceding chart pictures the church stewardship team organization.
The Team shall consist of a chairperson and four or more sections. The stewardship chairperson and the leader of each section shall comprise the stewardship council. The responsibilities and functions of each section shall be discussed in farther detail on the following pages.

The Church Stewardship Team

The mission of the church stewardship team is to develop in church members an understanding of and commitment to the biblical concepts of individual and corporate stewardship.

The team shall utilize all functions of the church including worship, ministry, proclamation education and application to accomplish its objective.

Expressions of stewardship responsibility fall naturally into four divisions. There are two in each of the two major areas of stewardship responsibility.

Individual stewardship involves:

1. Giving
2. Money Management

Corporate stewardship involves:

1. Mission Support
2. Church Budgeting

Stewardship materials are available which are related to each of these four divisions of responsibility. The stewardship chairperson shall distribute to each section the materials needed to help in its work.

The team shall meet as necessary, but at least two meetings of the entire team are essential.

1. As soon as possible after being elected by the church, the full team shall hold a planning meeting. At this meeting, the stewardship calendar for the year shall be outlined.
2. The second essential meeting shall be held immediately after the budget section has completed work on the budget to be recommended to the church. The entire team shall review the budget, and when the members have voted to join in the recommendation, the chairperson shall present it to the church on behalf of the team.

Other meetings shall be held as needed to review the work of the sections and lend support to them.

Glossary of Terms for the Church Stewardship Team

Church Stewardship Team

The total number shall be *[determined by the church]*. The team consists of a church stewardship chairperson, a stewardship education leader, a mission leader, a budget section consisting of a leader and other members, the church treasurer who serves as accounting section leader, plus other team members the church may designate.

Stewardship Council

The stewardship chairperson and the four section leaders shall form the stewardship council. The work of the council is to coordinate all stewardship activities designed to develop in church members an understanding of and commitment to the Biblical concepts of individual and corporate (or group) stewardship.

Stewardship Chairperson

The stewardship chairperson is the elected leader of the church's stewardship program. The stewardship chairperson is responsible for directing this phase of the church's activity.

Section

The work of the stewardship team is divided into four areas of responsibility. These are assigned to sections—education, mission, budget, and accounting. *[The church shall determine the number of members needed in each section.]*
Other sections may be added to the team as the church determines they are needed

Section Leader

Each section of the team shall have a leader. The leader is responsible for guiding his section in accomplishing the section objective

Ex-Officio Members:

Pastor
Other Staff Ministers
Financial Secretary (if a paid staff member)

The Stewardship Council

The objective of the stewardship council is to develop in church members an understanding of and commitment to the biblical concepts of individual and corporate stewardship. The work of the council is to coordinate all stewardship activities.

The stewardship council consists of the stewardship chairperson and the leaders of the stewardship education section, mission section, budget section, and accounting section. The stewardship chairperson serves as chairperson of the council.

Council members shall meet periodically to develop and coordinate a year-round program of stewardship development. Frequency of meetings shall be determined by need.

Each section shall recommend to the council activities related to its area of responsibility. The council shall schedule these to provide a balanced stewardship education program throughout the year.

Biblical concepts of personal stewardship — God's ownership and man's stewardship responsibilities in earning, spending, giving, and final distribution — shall receive frequent attention through the church program ministry areas. Teaching corporate (or group) stewardship may be covered through the budgeting process, mission emphases, regular reporting of the flow of funds, and other activities related to the church's corporate stewardship responsibilities.

The council shall:

- Study and implement ways to develop distinctive Christian stewards. (Individual stewardship involves giving and money management.)
- Lead the church to understand and accept a worthy corporate stewardship responsibility. (Corporate stewardship involves mission support and budgeting.)
- Utilize the functions of the church including worship, ministry, proclamation, education, and application.
- Instruct the treasurer regarding the designated disposition of all funds received from wills and trusts.
- Report to the church regarding the disposition of designated, restricted funds received from wills and trusts.
- Recommend a church financial record system to the church for approval.
- Recommend any changes needed in the church financial record system to the church for approval.
- Make a proper report of the financial audit to the church.

The Stewardship Chairperson

The church stewardship chairperson is the leader of the church's stewardship program. [He shall be elected by the church in the same way other leaders such as Sunday School director, Discipleship Training director, and others are elected.]

The stewardship chairperson is responsible to the church for fulfilling the objective of the church stewardship team to develop in church members an understanding of and commitment to the biblical concepts of individual and corporate stewardship.

The stewardship chairperson shall:

- Be responsible to the church for carrying out plans to fulfill objectives adopted by the team and the church.
- Work with the church staff in stewardship areas.
- Be a member of the church council and work with church ministry organization leaders in planning inclusion of stewardship material in their activities.
- Schedule and preside at team and stewardship council meetings.
- Be an ex officio member of each section and meet with the sections often enough to remain familiar with their plans and activities.
- Stay informed on stewardship resources and concepts.
- Serve as resource person to all church ministry areas in the stewardship field to implement plans of the stewardship team.
- Work throughout the year to teach church members biblical, individual, and corporate stewardship commitment.
- Present the budget, the audit, and all recommendations from the various functioning units of the accounting section to the church.

The Stewardship Education Section

The objective of the stewardship education section is to develop an understanding of the commitment to the biblical concepts of individual and corporate stewardship. The section shall develop and recommend methods of using the appropriate channels of the church to introduce biblical stewardship concepts to church members.

Biblical stewardship involves both individual and corporate stewardship. The following information on these two vital areas of stewardship and the suggested stewardship activities and resources shall be helpful as a guide to the stewardship education section of the church stewardship team.

Individual stewardship

Any attempt to discuss individual stewardship calls for biblical understanding. In the Scriptures, the word for steward (*oikonomos*) means manager. This means that God owns everything: What individuals have is entrusted to them by God. Each person is responsible for managing that with which he has been entrusted.

How can Christian stewardship/management be understood? There are five areas of development for the individual Christian steward: earning, spending, saving, giving, and planning for the future. It is this truth that must be communicated to the church.

Corporate stewardship

Corporate stewardship involves the areas of receiving, spending, giving, and planning for the future.

The Mission Section

The objective of the mission section is to develop an understanding of and commitment to the biblical concepts of individual and corporate stewardship. This section shall seek to increase mission understanding and develop Christian stewards through sharing mission educational materials and mission support information. [You may wish to include mission organization leaders and mission team members on this team.]

- One of the responsibilities of this section is to encourage the church to become involved in stewardship. This shall be achieved through informing the church membership about all of the church mission activities — local, associational, state, national, and global.
- Lead the church in planning, implementing, and evaluating mission activities designed to help the church accomplish its purpose.

The Budget Section

The objective of the budget section is to develop an understanding of and commitment to the biblical concepts of individual and corporate stewardship. The budget section shall discover ways to plan and support church ministries through budget development, promotion and commitment.

- The purpose of the church and the ministries to be performed to accomplish this purpose shall provide the basis for the work of the budget section of the church stewardship team.
- The process for carrying out this work shall include five basic steps: Planning the Budget Procedure and Developing the Budget, Presenting and Promoting the Budget, Administering the Budget, Evaluating the Process, and Adhering to the Principles of Individual and Corporate Stewardship Development.
- Persons serving on this section of the church stewardship team shall be distinctive Christian stewards; however, since ministry leaders, team leaders and team chairpersons shall be requesting funds for their area of ministry, they may not serve as members of the budget section.

Responsibilities of the budget section:

Plan and Develop the Budget

1. Encourage the ministries requesting budget funds to relate to the basic purpose of the church as they develop their budgets.
2. The budget shall reveal the ministries being performed to accomplish the purpose of the church.
3. The procedures of budgeting shall be “Ministry-Action Budgeting”.
4. All budget requests shall be made in writing; and the leader from each church ministry or team may come before the budget section and serve as spokesperson for their ministry, team, or group.
5. In the event alterations are necessary, the chairperson shall be consulted as to changes that are to be made.
6. Each ministry requesting budget funds shall have examined its goals for the year and ministries to be performed, including the cost of each.
7. A procedure for establishing priorities for the budgeting areas shall be developed so that top priorities may be considered first by the budget section.
    a. Essential areas of work shall be considered first;
    b. Second, those areas that are important;
    c. Finally, additional ministries if funds are available.

d. No consideration shall be given to items that fail to relate to the basic purpose of the church.

8. Work with the church stewardship team and recommend the budget features for the annual stewardship calendar.

Present and Promote the Budget

1) When the proposed budget is completed, the budget section shall present the proposed church budget to the church stewardship team for their review and input.
2) When the budget is approved by the church stewardship team, the stewardship chairperson shall present the proposed budget to the church, and it shall be the responsibility of the budget section to be prepared to discuss and answer any questions concerning the proposed budget.
3) The church stewardship chairperson may use any of several methods for presenting the budget for consideration by the church. It is important that the church membership understand the budget and how it shall help the church accomplish its purpose.
   a) Audiovisual budget presentation
      i) Video
      ii) PowerPoint
   b) Panel presentation by the church stewardship chairperson and members of the budget section.
   c) Congregational discussion. Plan and announce to church members the date for a meeting of the congregation when each member shall be given opportunity to listen to a presentation of the budget and ask questions concerning it.
   d) Mail the proposed budget, along with a letter of explanation, to each church family for study and evaluation prior to consideration in a preannounced church service. (This is probably the least effective method.)
4) Following the presentation of the budget to the church and prior to its adoption, the budget section is responsible for promoting the proposed church budget.

Adoption of the Budget by the Church

The proposed church budget shall be adopted by the church on a pre-designated Sunday following the budget presentation and promotion by at least a week

Administer the Budget

1) Review budget spending to assure that money is spent according to the adopted budget.
   a) Determine a specific tine and attend regular meetings for budget review as necessary.
   b) Review the monthly treasurer's report. As the report is reviewed, check the spending of all funds. Available funds shall be determined by monthly income. Check to see if budget allocations are being spent as dictated by the budget.
2) Make necessary recommendations to the church through the church stewardship team chairperson when unanticipated emergencies arise.
   a) Instruct those who originally made budget requests that revisions in their portion of the budget shall be made in writing to the church stewardship team.
   b) Assist in revising the budget when necessary.
3) Consider budget revisions when there are unanticipated emergencies, greater income than expected or inadequate budget support for church ministries.
   a) Make budget revisions only when it shall strengthen the church's handling of gifts received and more reasonably provide for the church's ministries.
   b) Make budget revisions in light of the determined purpose of the church.
   c) Present budget revisions to the church in a similar manner as was the original approved budget.
4) Administer the purchase order system for budget funds.
   a) Utilize a purchase order system for spending church income in order to avoid irresponsible spending and to help assure that money spent is in accordance with the adopted budget.
   b) Review the purchase order system every six months to see if it is working properly.
   c) [In larger churches] designate a staff member as purchasing agent to avoid unnecessary duplicate purchases and to seek quantity discounts.

Evaluation

1) Evaluation shall be a continuing part of the work of this section and shall relate to every step in the process.
    a) The primary purpose of evaluation is to help answer the question: Is the best possible job being done in budget planning, developing, presenting, promoting, and administration, in light of developing Christian stewards and helping the church understand and fulfill its purpose?
    b) Evaluation may best be accomplished by asking certain questions related to the work of this section. The following is a guide:
        i) How effective was the work in planning the procedure for developing the budget?
        ii) Did we choose the best budget development approach for our church? Shall the same type of process be used again next year or would another approach work more effectively?
        iii) Was the procedure for requesting budget funds effective?
        iv) Were all the groups and ministries able to follow the request procedure for budget funds without unnecessary difficulty?
        v) Did they do so effectively? If not, what can be done to assure this in the future?
    c) Was the process for determining priorities satisfactory? If not, what change shall be made in the future?
2) Was the budget developed according to the chosen plan?
    a) What were the strong points?
    b) What weak points shall be strengthened next year?
3) Were the methods of presenting and promoting the budget effective?
    a) What were the strong points? Shall these be repeated next year?
    b) What were the weak points? What can be done to strengthen these or shall they be replaced with other activities?
4) Is the plan for administering the budget working effectively?
    a) If not, what areas need attention? What can be done to strengthen these areas?
    b) As evaluation is done throughout the year, keep records of decisions related to the evaluation. Review these from time to time to determine the best ways to make the plans work more effectively.

The Accounting Section

The objective of the accounting section is to develop an understanding of and commitment to the biblical concepts of individual and corporate stewardship. The section shall take steps to insure that sound procedures are instituted for collecting, counting, safeguarding and disbursing funds.

- The church procedure for handling funds is clear and precise.
- The procedure includes seven basic areas: receiving, counting, depositing, disbursing, recording, reporting, and auditing.
- Persons and teams involved include the church treasurer, the counting team chairperson, the Sunday School general secretary, the financial secretary (a non-voting member) and the auditing team chairperson.

Responsibilities of the accounting section:

1) Reviewing the church financial report system and recommending any needed revisions to the church stewardship team.
2) Evaluating periodically the church financial record system and recommending changes to the church stewardship team.
3) Drafting and recommending financial policies regarding accounting.

The Estate Section

For suggestions, contact The Baptist Foundation of Alabama.

The Capital Fundraising Section

For suggestions, contact Stewardship at the State Board of Missions.

7.

Church Financial Procedure

Receiving

Sunday School gifts

1) Class secretary
    a) Do NOT count offering.
    b) INSIDE the classroom, place offering in larger envelope.
    c) Seal envelope and deliver it to Sunday School department secretary.
2) Department secretary delivers sealed class envelope to general Sunday School secretary.
3) General Sunday School secretary places sealed class envelopes in one large envelope and seals.
4) Counting Team
    a) Two members go to general Sunday School secretary's office and pick up sealed envelope.
    b) Place the Sunday School offering at the front of the sanctuary in the pulpit or where the worship service offering is normally placed. (The Sunday School offering shall not be counted during Sunday School or church services).

Worship service money

1) Gifts shall remain in the offering plates in the sanctuary until the end of the worship service.
2) At least two members of the counting team shall be seated near the front of the sanctuary during the worship service. They shall pick up the offering immediately following the worship service, place it in a locking bank bag, and take it to the bank and drop it in the night deposit box.

Money received at other times

1) Gifts received in the church office during the week or special gifts at year-end shall be noted as to source and designation and then deposited by the financial secretary the day they are received.
2) The deposit slip shall be completed in duplicate and a copy given to the treasurer.
3) Information regarding the individual making the gift shall be given to the financial secretary or the person responsible for recording gifts.
4) Designated, restricted gifts to a specific cause(s) shall be deposited, a duplicate deposit slip given to the treasurer along with the information regarding gift designation.
5) Income received from wills and trusts shall be handled by the accounting section, reported to the church stewardship chairperson, who in turn shall report to the church and seek instruction as to the disposition of the funds.

Depositing

1) Immediately following the service, the money shall be taken to the bank and placed in the night depository. At least two members of the counting team shall make the deposit.
2) This same procedure shall be affected for the evening services.
3) **NEVER** take the offering receipts home or leave them unattended in a safe at the church.

Counting

1) The counting team shall count the Sunday offering at the bank on Monday morning.
2) Counting money:
    a) Separate loose offering from the envelopes.
    b) Count the loose offering and record the amount.
    c) Separate budget offering envelopes from any special offering envelopes.
    d) Open each envelope and remove the money.
    e) Verify the amount enclosed with the amount recorded on the face of the envelope.
        i) Shall there be any discrepancy or shall the figures not be legible, have a second person verify this and record the amount with red on the right hand upper corner of the envelope.
        ii) Both persons shall initial this.
        iii) The financial secretary shall notify the affected parties.
    f) Add the amounts from budget offering envelopes and record the total, using the corrected amount where applicable.
    g) Add the amounts from special offering envelopes and record the total.

h) Checks that are received which are not enclosed in envelopes shall have an envelope prepared for them. This shall assure that the amount is credited to the individual record.
i) Separate the cash from the checks so that a deposit slip can be made.
j) After counting the money, make deposit slips in duplicate and deposit the money.
k) The duplicate deposit slip shall be given to the treasurer

3) Envelope arrangement
   a) Arrange offering envelopes in numerical order. This will arrange church families together.
   b) If numbered envelope packages are not used, arrange envelopes alphabetically by families.
   c) Arrange all special offering envelopes and miscellaneous offering receipts alphabetically.

Disbursing

1) All organizations, teams, staff or individuals shall abide by the financial policies and procedures of the church.
2) All **budgeted** expenditures shall be approved by the appropriate staff member.
   a) Pastoral staff members (pastor and other ministers) can approve budget expenditures of $1,000.00 or less without prior approval from the stewardship council by completing a purchase order.
   b) The individual wishing to make an expenditure shall submit the request to the appropriate organization or team, who shall submit the request to the appropriate pastoral staff member who shall approve the request by completing a purchase order.
   c) The purchase shall be made by the pastoral staff member or a designated individual.
   d) The pastoral staff member shall give a copy of the purchase order to the financial secretary indicating the purchase has been authorized.
3) All **budgeted** expenditures over $1,000.00 must have stewardship council approval before the expenditure is made. Exceptions to this policy are utilities, debt retirement, literature, Cooperative Program, payroll checks, and breakdown in mechanical equipment (or similar emergencies).
   a) The ministry, committee, team, or individual wishing to make an expenditure shall submit his request to the appropriate pastoral staff member.
   b) The pastoral staff member shall review the request before submitting the purchase order to the stewardship council for approval.
   c) After approval by the stewardship council, the expenditure shall be made.
4) The stewardship council shall make decisions and/or recommendations concerning all non-budget expenditures as necessary to the church.
   a) The organization, team, or individual wishing to make an expenditure shall submit the request to the appropriate pastoral staff member.
   b) The pastoral staff member shall review the request and submit a written proposal along with a purchase order to the stewardship council.
   c) The stewardship council shall make a decision concerning the request and if approved submit the request to the church.
   d) After approval by the church, the expenditure shall be made.
   e) The church shall have final authority concerning non-budgeted expenditures.
5) The church shall be responsible only for authorized expenditures (Authorized expenditures are those approved by the designated pastoral staff member and/or the stewardship council and/or the church).
6) The church shall have an annual audit.
7) No purchases shall be made or checks issued without a proper check request or a purchase order.
8) The authority for disbursements comes from the budget as adopted by the church and/or from expenditures approved by the church according to church policy.
9) Checks shall be cosigned by any two of the following: treasurer, the church stewardship team chairperson, or the financial secretary.
10) In the event that monthly receipts are insufficient to meet budget requirements
    a) An emergency decision for distribution of funds shall be made by the budget section of the church stewardship team
    b) A report of such decisions shall be made to the church by the church stewardship team chairperson, and priorities shall be established.

Recording

1) The church treasurer is responsible for supervising the recording of all receipts and disbursements of church funds.
2) The church financial secretary is responsible for recording individual gifts of church members. The purpose of the record is twofold:
   a) That the church may have a record of the giving by church members
   b) That the church members may have a record of their contributions.
   c) In the event the church is without a financial secretary, this duty shall fall under the responsibility of the church treasurer or some other designated person in the church.

Reporting

1) The church treasurer shall be responsible to make a regular monthly report of the financial condition of the church to the church stewardship council.
2) The church stewardship team chairperson shall be responsible for making a report of the financial conditions of the church at the monthly business meeting and for distributing copies of the printed report.
3) The financial secretary shall be responsible for seeing that quarterly and annual giving records are mailed to all church members.

Auditing

1) The auditing team shall have an official audit of receipts, disbursements, and accounting records and reports on an annual basis.
2) The auditing team shall farther study the insurance program of the church to determine if sufficient amounts are being carried.
3) The auditing team shall check to see if proper retirement plans are being carried for church staff members.
4) The auditing team shall submit annually a list of members to be bonded.
5) The results of the church audit shall be submitted to the church stewardship team chairperson who shall make a proper report to the church.

Bonding

The following church members shall be bonded:

1) The church treasurer.
2) Members of the church counting team.
3) General Sunday School secretary.
4) Church financial secretary.
5) Church secretaries.
6) Any other church member who handles a significant amount of the church's money.
7) This list shall be revised at least annually by the auditing team.

Audit Team Policy[32]

The audit team (or committee) is elected annually by the church and is composed of three or four members who are not connected with the receipt or disbursement of funds. It is the duty of this team (or committee) to secure a professional auditor (accountant or bookkeeper) to audit the financial records of the church annually or as instructed by the church.

The word "audit" is a positive word. An audit of a church's financial records can support the church treasurer and prevent controversy. An audit also protects a church. Occasionally, a person is elected as treasurer who is not qualified for the position. Perhaps more important is that an audit can protect the church from inadequate or the wrong kind of record keeping.

If the church chooses not to have a professional audit of its financial records, a reasonably good audit can be conducted by the audit team (or committee).

[32]Written by Ron Byrd, CPA, Mainesville, Ohio; Reviewed and expanded by Ray L. Clinebelle. Jr., CPA, Raleigh, North Carolina

Auditing financial records is a relatively simple task when the audit team (or committee) allows adequate time for the work. If, however, significant problems are identified, the services of a professional auditor should be sought.

Responsibilities of the church auditing team (or committee)

When the audit team (or committee) audits the financial records, the following procedures can be used.

Preparation Procedures

Collect the appropriate records:

1) Bank account statements, deposit slips, all canceled checks, and any voided checks.
2) Savings account records (if the church has a savings account).
3) The counting team (or committee) record book where details of deposits are kept with the breakdown of designated and undesignated receipts.
4) Treasurer's monthly financial statements detailing disbursement transactions.
5) Treasurer's log or ledger
6) Paid bills with documentation or authorization for all disbursements.
7) Church's checkbook.
8) Copy of church budget for period of audit.
9) Payroll records.
10) Copies of church approved policies for finances (travel reimbursements, vacation pay for staff, etc.).

Auditing Procedures

The team (or committee) should meet at a time when each member can best give attention to details.

Receipts

1) Compare all receipt records for accuracy and consistency. Counting team (or committee) record book entries should be the same as the deposit slips and entries on the bank statement. Receipt records and bank statement should also agree with the entries in the treasurer's checkbook and monthly financial statement.
2) If differences are found in the above procedure, account for such differences and the funds involved.
3) For proper accounting, all money received must have been deposited in the checking account before being disbursed.

Disbursements

1) Check to insure that each check is written for a legitimate church expense and that a bill or other authorization is available for the exact amount of the check as written.
2) Any payment to the treasurer or his family should be signed by an authorized signer other than the treasurer
3) Disbursements from checking to savings accounts should be verified for accuracy. Funds withdrawn from savings should be verified as having been deposited in the checking account.
4) As a general rule, any document (either receipt or disbursement) that has an erasure or change noted should be reviewed very carefully.
5) Each check in the treasurer's checkbook marked void should be located and verified as having been actually voided.
    a) (Review the following example for possible problems.)
        i) The monthly bill for electricity is $100.
        ii) Canceled check #101 found in bank statement is written to electric company for $100.
        iii) Entry for check #101 in checkbook is found to be for $200.
        iv) Treasurer's monthly statement shows electric expense as $200.
        v) Check stub #102 in checkbook is marked void
        vi) Check #102 found in bank statement cleared for $100 made payable to cash or some other payee.
    b) (Many variations in the above are possible. Misappropriation of funds is suggested.)
6) Obtain reasonable evidence that expenses have been approved. If the budget serves as authorization for expenses, the audit team (or committee) should compare the expenses with the budget.
7) Review of salary and wage allocations might include an examination of program reports, job descriptions, and employee time or activity reports.
8) Determine whether budget categories are consistent with those of the preceding year or, if not, that the changes are adequately noted.

9) An inventory should be made of equipment and building assets.
10) Obtain copies of bank account reconciliations and see that they agree with ledger accounts.
11) Confirm bank balance directly with the bank including, but not limited to, checking accounts, savings accounts, and loan accounts.

Restricted Funds (special offerings, etc.)

1) Review the receipts and disbursements for special fund and special "pass-through offerings (Lottie Moon Christmas Offering, Annie Armstrong Easter Offering, etc.).
2) Review restricted funds to determine that amounts received and disbursed are properly recorded according to donor instructions (memorial funds, trust funds. etc.).

The church audit team (or committee) should report all findings to the church stewardship team (or committee) whose chairperson will then report to the church. If a church does not have a stewardship team (or committee), the audit team (or committee) chairperson will report directly to the church.

Other suggested procedures

To make auditing as easy as possible and to insure proper handling of church funds, evaluate the way church funds are currently being handled.

1) Everyone handling church funds should be bonded:
   a) The church treasurer
   b) Members of the church counting team (or committee)
   c) The general Sunday School secretary
   d) The church financial secretary
   e) The church secretary
   f) Any other members who handle any church money.
2) The church audit team (or committee) should review this list annually.

Benevolence Ministry Policy

Objective: To provide a guideline for the disbursement of donated funds.

The main focus of this ministry area is to assist members and non-members with financial assistance during a crisis. The benevolence fund will be the designated account that will be used to provide financial aid for members and other individuals in the community served by the church. The need for financial assistance could be the result of such things as a fire, flood, accident, illness, loss of job, etc.

Contributions made directly by a donor to needy individuals are not tax-deductible. To qualify for a charitable deduction, contributions must be made to a church or a qualified charity.

It is the substance and not the form of a transaction that is controlling—IRS. If the donor's intent is to make a contribution to the church, the contribution is generally tax-deductible. If the donor's intent is to benefit the designated individual, the donor is using the church as an intermediary to obtain tax deduction for a non-deductible gift.

Appeals for contributions to this fund will be made as needed (approved by the associate pastor and the stewardship team) so there will always be funds available in an emergency. The associate pastor will be responsible for the administration of these funds.

Criteria

1) Individuals shall meet with one of the ministers or an appointed staff member prior to the receipt of assistance.
2) Proof of need must be presented and proven. The minister or the appointed staff member will complete the evaluation.
3) Members will receive preference in assistance.
4) Non-members are able to receive assistance ___ times in a calendar year.
5) Proof of other agencies and resources consulted is required before assistance can be given.

Evaluation Procedure

- Original bills must be presented.
- Name, address and phone number must accompany original dated bill and be presented.
- Confirmation of unpaid bill must be sought.

Funding Availability

1) Each request requires individual evaluation. The use of other agencies for collaboration is highly encouraged.
2) If the need is greater than the available funding, the request must be deferred to a potential later date. Communication with companies may allow partial payments.
3) Discouraging repeat assistance is important for the individual and ministry.
4) The ministers may do special funding solicitation. This should only occur in extreme emergency situations.

Confidentiality of contributions policy

Contribution information is kept private and is under no circumstances to be distributed to members, stewardship team, church leadership team, employees or ministerial staff. The only people who have access to that information are the finance secretary (who enters the data into the computer) and the administrator.

Quarterly giving statements are provided to the donor for tax and personal records. The stewardship team does review giving records (reports) for trend analyses but the names on the reports have been replaced with numbers (sequential – not member/envelope numbers) by the financial secretary prior to the team seeing the reports.

Our belief, and practice, is that a person's giving is between that individual and God.

Confidentiality of salaries policy

Staff salaries are not published in the budget by individual but as a line item including all staff compensation. Only the personnel & stewardship teams see an individual's compensation.

Our bylaws charge the stewardship team with determining dollars available to the personnel team. The personnel team is charged with setting salaries (taking into account a supervisor's recommendations, of course).

A member may make a written request to the personnel team for an individual's salary information provided adequate reasons are presented.

Legal Notices and Privacy Statement to Members of _____ Baptist Church Regarding Staff Salary Information

HOW YOU MAY USE SALARY INFORMATION: You may use this information for yourself only. You may not share or distribute any salary information with any non-member of _____ Baptist Church.

In no event shall any member, trustee or agent of _____ Baptist Church be liable for any damages whatsoever, including special, indirect, consequential or incidental damages or for loss of privacy whether brought in contract or tort, arising out of or connected with any confidential information or the use, reliance upon any material contained in this salary document.

Agreement

I agree to keep confidential all salary information in this document.

I agree to assume all liability for any damages whatsoever, including special, indirect, consequential or incidental damages or for loss of privacy whether brought in contract or tort, arising out of or connected with any confidential information or the use, reliance upon any material contained in this salary document.

_____ _____

Signed, Member Signed, Personnel Committee Chairperson

Caution: This form is a sample.
It is NOT intended for use without the advice of an attorney.

Controls on Expenses[33]

1) The person who approves purchases should not prepare the checks for payment.
2) The person who prepares the checks should not be authorized to sign them.
3) The check signer should not be the person who approves invoices for payment.
4) Two signatures. More than one signature should is required on checks over $1,000. One signature is generally adequate on checks of a modest amount.
5) The business administrator approves purchases, and all check requests require the approval of the church treasurer before checks are written. However, if a church has no budget and no written procedures for disbursing funds, requiring two signatures on all checks should help offset the missing controls.
6) Limited signers. Access to the church checking account is limited to 5 individuals.
7) Pastors and ministers shall not be authorized to sign checks.
8) No blank checks. Checks should never be signed in advance of filling in the amount of the check and the payee. Use petty cash for minor cash expenditures. Larger expenditures that might require an immediate disbursement are better handled by establishing open accounts with vendors or charging items on a church credit card. Otherwise, an expenditure should wait until an exact amount can be determined and documented.
9) No more than one account. One bank account is sufficient for the church since the accounting system breaks down various types of funds (for example, operating, building, and scholarship).
10) If the church has active trust or endowment funds, those funds should be handled through a separate bank account.

[33] Based on ideas from Dan Busby, CPA, a speaker, author, and consultant with Capin Crouse LLP, with offices in Atlanta, Chicago, Colorado Springs, Indianapolis, and Los Angeles. *Your Church*. May/June 1999, Vol. 45, No. 3, Page 60.

Credit card policy sample

1. Each minister issued a credit card shall be subject to this policy.
2. The ministers eligible are pastor, minister of education, minister of music, youth minister and children's minister.
3. Each minister will have a separate card number to simplify accounting.
4. The financial secretary shall receive the statement and provide a copy to the minister. The minister will NOT receive the statement directly.
5. The church will pay the card company only reasonable ministryrelated business expenses incurred by the minister or employee.
6. Subject to budget limitations, such expenses will include:

a. Gasoline for use of vehicles owned, leased or borrowed by the church **other than the minister's personal vehicle** (Use of personal vehicle is reimbursed at the current IRS standard mileage rate).
b. Business travel away from home: transportation, lodging and meals on overnight trips.
c. Convention and conference expenses.
d. Educational expenses, if otherwise qualified as an itemized deduction and within the limits of current law.
e. Subscriptions, books and tapes, if related to ministry or employment.
f. Entertainment/hospitality expenses, if the business connection requirement is met.
g. Purchases of supplies for church events.

7. The minister or employee will account for each allowable expense in writing within 60 days.
8. Documentation will include the amount, time and place, business purpose and business relationship of each expense. A **receipt** will accompany the documentation. Purchases without an accompanying receipt will be treated as non-approved use of the credit card. If requesting reimbursement for ministry related purchases made over the internet, provide more than just the order confirmation page that was printed off the website. The preferred documentation is a copy of your credit card statement that shows the charge but we will also accept a "Paid" receipt from the website that indicates your purchase was completed through MasterCard, Visa, American Express, etc.
9. Use for any reason other than reasonable ministry related business expenses is NOT allowed. Failure to follow this policy will result in disciplinary action up to and including termination:
    a. First offense—Reimburse church and receive a verbal warning from supervisor or in the case of the pastor, the deacon chairperson or other disciplinary action up to and including termination.
    b. Second offense—Reimburse church, forfeit credit card for one month and receive a written warning from supervisor (or in the case of the pastor, the deacon chairperson) or other disciplinary action up to and including termination.
    c. Third offense—Reimburse church, forfeit credit card indefinitely and receive a termination hearing from supervisor (or in the case of the pastor, the deacon chairperson and personnel team) or other disciplinary action up to and including termination.
    d. Any offense with apparent intent to abuse the credit card, hide the misuse of the credit card or criminal and/or unethical use of the card. Reimburse church, forfeit credit card indefinitely, be suspended without pay and receive a termination hearing from supervisor (or in the case of the pastor, the deacon chairperson and personnel team). During the suspension health, life and disability insurance coverage will continue for up to 6 months or until the termination hearing, whichever comes first.
10. Use for any deliberate misappropriation of funds will result in disciplinary action in the form of suspension without pay pending a termination hearing from supervisor (or in the case of the pastor, the deacon chairperson and personnel team. During the suspension health, life and disability insurance coverage will not continue).
11. Under this accountable arrangement, the church will not report reimbursed amounts as taxable income on the minister's or employee's Form W2. The minister or employee should not report reimbursed amounts as income on Form 1040.

Designated (restricted) Gifts Policy

Sample Baptist Church is almost totally dependent on charitable contributions by you and other members to accomplish her mission:

Sample Baptist exists to experience, celebrate, and share God's grace.
We affirm six main functions as the means of so doing: Christ-centered Worship, Biblical Instruction, Prayer, World Evangelization, Nurturing Fellowship, and Caring Acts.

Since this is how we finance the work, with your contributions, we want to be very clear in explaining how we receive contributions. "There are many unique and sometimes technical legal rules that apply to charitable contributions that are not well understood by most donors or church leaders. Unfamiliarity with these rules can lead to unfortunate consequences, including the disallowance of charitable contribution deductions."

There are six requirements that must be satisfied in order for your contribution to Sample Baptist Church to be tax deductible. The gift must:

Be a gift of cash or other property (IRS §170)

a) Non-deductible items (Gifts you may not deduct from your income):
b) The value of services rendered
    i) We are very grateful for your labor or services when you give them to Lord, but the IRS does not allow us to give you tax credit for such donations.
    ii) A plumber who donates his time and materials may receive tax credit for materials (**but <u>not</u> for the labor**).
c) Value of property furnished
d) The church will give a letter describing the property (Example: A 1987 Oldsmobile Cutlass Calais was given) but the church may not assign or include a value. It is your responsibility to have the item appraised if you want to know the value.
e) Rent-free building space. The value of rent-free building space made available to a church cannot be claimed as a charitable contribution. This includes motels, meeting rooms, etc.

Be delivered before the close of the year

f) Charitable contributions must be claimed in the year in which they are delivered to the church.
g) Delivery date is:
h) The date it is actually received by the church (Post-dating a check does not help). If the check is delivered after the close of the year, it counts in the new year.
    i) One exception is a check that is **mailed** to the church—it is deductible in the year the check is mailed (and postmarked), even if it is received early in the next year. The postmark counts as delivery date (we will keep the envelope).

Have no conditions on payment

i) If your offering is accepted as designated (restricted), it is accepted under a trust agreement, and cannot be converted to other uses without your written permission.

Have no personal benefit to you, the contributor

j) Items that cannot be counted as contributions:
    i) Trip payment (exception: Mission portion of a mission trip)
    ii) Purchases such as CDs, books, etc.
    iii) Meals
k) The donation must be made to or for the use of the church or a fund designated **by the church**
    i) Direct contributions to church staff members, missionaries, or any other individual, are not tax-deductible, even if they are used for religious or charitable purposes.
    ii) The gift cannot be given with a guarantee of who gets it. To guarantee a recipient, you give up deduction.

iii) If you receive a benefit. Contributions generally are deductible only to the extent they exceed the value of any premium or benefit received by you in return for the contribution.

Not be in excess of the amounts allowed by law

l) There are limits on the amount of a contribution that can be deducted.
m) In some cases, contributions that exceed these limits can be "carried over" and claimed in future years.

Be substantiated

n) The church will send the appropriate substantiation provided you supply us with the needed information.
o) The method will vary according to the type of gift and the IRS applicable rules.

Designated (restricted) Gifts (Including Memorials)

"Designated contributions" are those that are made to Sample Baptist Church with the stipulation that they be used for a specified purpose. In accounting terms, these are sometimes called restricted.

To be tax deductible, church must have the right to direct the money to where it is most needed.

The church exercises full administrative control over the donated funds to ensure that they are being spent in furtherance of the church's exempt purposes.

Designated (restricted) gifts may be received only into funds approved by Sample Baptist Church in advance of the time the gift is given.

Examples of special offerings that are approved by the Church are as follows: Lottie Moon, Annie Armstrong, Kathleen Mallory, Building Fund, Benevolent, and Revival Love Offerings

If the purpose is an approved project or program of the church, the designation will not affect the deductibility of the contribution.

a) If a donor stipulates that a contribution be spent on a designated individual, no deduction is allowed
b) Contributions to a church or missions agency that specify a particular missionary may be tax deductible if the church or missions agency exercises full administrative and accounting control over the contributions and ensures that they are spent in furtherance of the mission of Sample Baptist Church.

Memorials

1) The church will receive memorial gifts.
2) You may give memorial gifts to the general fund or you may request the designation of memorial gifts to a specific area of church work. The church reserves the right to disperse the money in another manner if and when by decision of the church, the gift no longer serves its purpose or the original purpose is no longer desired by the church.
3) All funds received by the church in memory of another person will be acknowledged by the church to the donor and the family of the person for whom the gift is given.
4) A copy of the acknowledgment will be kept as part of the church's permanent file.

Substantiation

1) We will provide proper substantiation for your contributions. Substantiation rules apply to:
   a) Individual contributions of cash or property of $250 or more.
   b) "Quid pro quo" contributions in excess of $75.
   c) In addition, special substantiation procedures apply to your contributions of non-cash property valued by you at $500 or more.
      i) You may be required to file an IRS form 8283
      ii) If the value is more than $5,000, then you must obtain a qualified appraisal of the property
      iii) In some cases, we, (Sample Baptist Church), when receiving a donation of non cash property valued by you, the donor, at more than $5,000 must submit an information return (IRS Form 8282)

Scholarship fund

1) Sample Baptist Church has a scholarship fund administered by the scholarship committee.
2) Applications are accepted March 1 for the following fall term.
3) Amounts will be awarded based on meeting the criteria established by the church. The scholarship materials provide the application and criteria.
4) A donor normally may not make a deductible contribution to a scholarship fund from which a family member (grandchild, child, sibling, spouse, parent or grandparent) will benefit.

Suggested steps in administering a designated (or restricted) fund:

1) When a designated fund is established, it must be controlled and administered by the church. Do not receive any monies until the church has established the fund. Because, to be a deductible contribution the fund establishment must pre-date any contributions.
2) Determine the purpose of the fund.
   a) Why is this designated (restricted) fund needed?
   b) How will it further the church's mission?
3) Write a governing policy.
   a) How and under what conditions will the funds be disbursed?
   b) If persons are involved, what are the requirements for each recipient, (how much can they receive, what are the disbursement procedures and what are the accounting requirements)?
   c) How will monies be received for the fund?
   d) What are reporting requirements to the church?
   e) It's always good to determine in advance how any monies left in the account will be spent once the purpose of the designated (restricted) fund is complete.
4) Establish a procedure for disbursement of the fund:
   a) Designate a committee to control the fund disbursement based upon the fund policy and disbursement procedure.
   b) This makes all distributions from the fund subject to the unrestricted control and discretion of the committee.
   c) Then communicate the policy and procedures to all prospective donors.
5) Establish accountability procedures require reports from recipients as appropriate.
   a) Take periodic expenditure reports to the church and give proper substantiation to the contributors.
   b) An audit procedure should be established in the event of an IRS request for information about the church's designated (restricted) fund policy and procedures.
6) **Keep a confidential list of contributors.** It is important to keep a list of contributors and the amount of their contribution, because the church probably will want to close the designated (restricted) account after it has met its purpose and the fund may still have monies left.
7) **Leftover money** It is always best to determine in advance how any money left in the account will be spent once the purpose of the designated (restricted) fund is complete.

Designated (or restricted) fund management

"Designated (restricted) contributions" are those that are made to a church with the stipulation that they be used for a specified purpose. If the purpose is an approved project or program of the church, the designation will not affect the deductibility of the contribution. Contributions designated (restricted) to a group or organization within the church (i.e. Sunday school class) for the class' exclusive use and under its total control is not a deductible contribution to the church. (The class is not a 501(c) (3) organization.) The church cannot add this designated (restricted) contribution to a member's giving record because the church does not have any control over the contribution.

If a donor stipulates a contribution be spent on a designated individual, no deduction is allowed unless the church exercises full administrative control over the donated funds to ensure they are being spent in furtherance of the church's tax exempt purposes.

Members cannot deduct contributions designated for pastor or staff that can be spent as the staff wishes unless the amount is added to the pastor or staff's W-2 Form as income.

The IRS looks at the substance and not the form of a transaction as the controlling factor. Did the donor intend to make a contribution to the church or did the donor only intend to benefit the designated individual by using the church to obtain a tax deduction on an otherwise non-deductible gift?

Internal Audit Team

A. Team (or committee) Make-up

The Internal Audit team will be made up of the following individuals:

1) Senior Pastor, ex-officio member with voting rights
2) Church Business Administrator, ex-officio, non-voting member.
3) Representative from the Board of Directors
4) Two members at large, with accounting, business and finance background.

B. Weekly Duties

1) Receives copy of all original offering reports.
2) Receives corrected copies of offering reports
3) Test the correctness of these reports on a periodic basis and review corrected reports on a weekly basis.

C. Periodic Duties

1) Review cash handling procedures and be familiar with church accounting policies and procedures.
2) Determine that computer records are adequately safeguarded.
3) Determine that important records on the church computer are backed up regularly. Daily records should be backed up. A hard copy should also be on file.
4) Determine that payroll documents are complete, accurate, backed up on disk and a hard copy is on file.
5) Insure that safeguards for assets are in place.
6) Insure that valuables are properly protected.
7) Set controls for egress/ingress. Determine if church offices are locked when not in use and if the computers are locked or password protection is properly used. Insure that passwords are changed at least every 30 days.
8) Insure that keys are properly controlled
9) Insure that contribution reports are properly maintained
10) Assure the accuracy of accounting information
11) Review internal controls.
12) Conduct a surprise audit of petty cash fund annually
13) Review errors and insure training for ushers and accounting staff as appropriate.
14) Insure that accounting records are safeguarded and backed up
15) Insure that proper accounting procedures are in place
16) Insure that the inventory of securities valuables, equipment and other non-cash assets are maintained.
17) Insure that ushers training and financial staff training is sufficient
18) Review insurance coverage at least annually. Make recommendations for changes as necessary.
19) Monitors the performance of the Church Business Administrator. Send a report on performance to the Senior Pastor at least annually.
20) Review church stewardship programs and make recommendations for changes.
21) Review records retention at least on an annual basis.
22) Insure that a list of all assets is maintained and updated as necessary. Insure that a back up copy of the inventory list is kept off site.

D. Monthly Duties

1) Review offering counters reports, corrections, and balance to bank statement on a test basis.
2) Test individual funds each month, Youth, Singles, Women's, Men's, etc. Test at least one fund each month.
3) Review monthly expense reports with the Church Business Administrator prior to presentation to the Church Leadership Team.
4) Compare expense account totals to budgeted amounts looking for any large unusual budget variances.

5) Test accounts payable data.
   a) Insure documentation is on hand.
   b) Verify accuracy of invoices.
   c) Make sure all invoices are properly approved.
   d) Verify any past due invoices and determine why they were not paid.
   e) Insure that any outstanding invoices not paid in the current month are included on the "Unpaid Accounts Payable From Previous Month" report given to the Church Leadership Team.
   f) Insure that charges are going to the correct department and expense code.
6) Review line item periodically. Test 2-5 line items each month.
7) Insure bank reconciliation's are done monthly.

E. Quarterly

1) Review numerical sequence of checks issued.
2) Review check disbursements by tracing the item as recorded in the disbursements register, (computerized checking account), to the canceled checks agreeing dates, amounts, payee, signature and endorsement.
3) Send out quarterly contribution reports
4) Answers periodic question from contributors
5) Receive feedback from quarterly contribution reports
6) Periodically review payroll taxes, Forms 941 and Forms 8109.

F. Year-End Review

1) Obtain Year-End Financial Report
2) Compare beginning balances per current report to ending balances on prior year-end annual report.
3) Check clerical accuracy of the year-end financial report.
4) Compare ending cash balances for each fund to:
   a) Bank Statement reconciliation
   b) Ending balance per check register or savings account.
   c) Identify outstanding checks and trace subsequent clearing of those checks and deposits in transit for previous year.
5) Prepare a written report of the Internal Audit Team (or committee) to be included in the annual report to the congregation.
6) Oversee preparation of annual W-2s and 1099's
7) Make sure the annul audit is completed.

Overtime Policy

1) No non-exempt employee will work more than 40 hours in any workweek unless the Pastor, the Business Administrator or the Chairperson of the personnel committee approves it in writing. When a non-exempt employee works more than 40 hours in any week, they must be paid at one and one half times their regular rate. Funds must be available for overtime before approval will be given. Working overtime without permission will result in a termination hearing.
2) Voluntary overtime will not be acceptable. The Pastor, the Business Administrator or the Chairperson of the personnel committee must approve all overtime in writing. *[Specify this in your written policy manual and place it in the employee's hands at the time of employment]*.
3) When an employee is needed to work additional time on any given day or on the weekend, time shall be given off at other times during that particular week. If an employee needs to work late on Friday or Saturday, this should be anticipated and time should be given off in the earlier part of that week.
4) The pay period shall begin on Wednesday and end on Tuesday. This is to provide greater flexibility in allowing longer hours on Sunday, Wednesday and Friday (time off can be given on other days than Friday).
5) Work away from the church building involving a non-exempt employee should be eliminated if possible. If working away from the church building is absolutely necessary, then it must be approved in writing by the Pastor, the Business Administrator or the Chairperson of the personnel committee.
6) If it is necessary for a non-exempt employee to work away from the building, credit will be given for travel time and hours for which actual work is performed.

7) The attached form, Weekly Attendance Record, will be completed each week by the non-exempt employee, signed, approved, and given to the financial secretary each Wednesday (or Monday) morning. This form is required to fulfill the requirement previously listed, 'must maintain adequate records documenting all hours worked and leave time." It must be completed each pay period. It must be signed each week.
8) When employing new people, a written *Employment Agreement* will be prepared by the personnel committee.
9) The financial secretary will maintain a record of all wages received by each employee. This will include time worked, pay computation, check numbers, and a record of each check as it clears the bank.

Reimbursement policy

In accordance with IRS regulations 1. 162-17 and 1.274-5(e), the Baptist Church hereby establishes a reimbursement policy for all ministers and employees with the following terms and conditions:

1) The church will reimburse only reasonable ministry-related business expenses incurred by a minister or employee. Subject to budget limitations, such expenses will include:
   a) Business use of automobile, up to the current IRS standard mileage rate;
   b) Business travel away from home: transportation, lodging and meals on overnight trips,
   c) Convention and conference expenses;
   d) Educational expenses, if otherwise qualified as an itemized deduction and within the limits of current law;
   e) Subscriptions, books and tapes, if related to ministry or employment;
   f) Entertainment/hospitality expenses, if business connection requirement is met.
2) The minister or employee will account for each allowable expense in writing at least every 60 days. Documentation will include the amount, time and place, business purpose and business relationship of each expense. A receipt will accompany the documentation.
   If you are requesting reimbursement for ministry related purchases you made over the internet please provide more than just the order confirmation page that was printed off the website. The preferred documentation is a copy of your credit card statement that shows the charge but we will also accept a "Paid" receipt from the website that indicates your purchase was completed through MasterCard, Visa, American Express, etc.
3) The minister or employee will return advances that exceed actual business expenses within 120 days.
4) Under this accountable arrangement, the church will not report reimbursed amounts as taxable income on the minister's or employee's Form W-2. The minister or employee should not report reimbursed amounts as income on Form 1040.

FYI

Examples of taxable non-accountable arrangements and included on the W-2:

1) The church pays a monthly "car allowance" to the minister or staff member, without requiring any accounting or substantiation.
2) The church reimburses business expenses without requiring adequate written substantiation of amount, date, place, and business purpose of each expense.
3) The church only reimburses business expenses once each year. Business expenses must be accounted for within a "reasonable time," generally 60 days or less.
4) The church provides the minister or staff with travel advances and requires no accounting for the use of these funds.

Salary restructuring and salary reduction arrangements will be discovered and questioned even more by auditing agents.
Also, employees cannot claim a deduction for business expenses for which they did not seek reimbursement. If the employee voluntarily chooses not to seek reimbursement for an expense from an employer, when the employer has an accountable expense reimbursement plan, then the expense is not deductible, the presumption is that the expense was not "necessary"

Also, if any expenses reimbursed under this arrangement are not substantiated, or are an excess reimbursement that is not returned within a reasonable period of time by an employee, the church cannot treat the expenses as reimbursed under an accountable plan. Instead, the expenses are treated as paid under a non-accountable plan.

Spending Policies:

1) Limited terms for treasurers. The term of the treasurer is limited to three years.
2) Annual review of check signers. Once a year, the church should adopt a resolution authorizing check signers.
3) A benevolence fund. Contributions made directly by a donor to needy individuals are not tax-deductible. To qualify for a charitable deduction, contributions must be made to a church or a qualified charity.
4) Your church would be wise to establish criteria for individuals who may receive assistance. It should also adopt policies on how benevolence funds should be disbursed. A board-approved benevolence fund is an excellent way to handle gifts for needy individuals.
5) A housing allowance. The stewardship team (or committee) shall establish a housing allowance for every minister. Ministers who live in parsonages should have a housing allowance, too, even though that will be a more modest amount than what is provided for a pastor who provides his/her own housing.
6) An expense-reimbursement plan.
7) Guidelines for travel.
    a) Actual travel expenses shall be reimbursed (rather than a per-diem method).
    b) The church will reimburse a staffer for the use of a personal vehicle, at the IRS rate per mile.
    c) Type of transportation. The church will pay for air travel under circumstances where time-cost analysis warrant.
    d) Family travel. Expenses will be reimbursed for a minister's spouse and children if they accompany him/her on church business as long as they travel in the same vehicle and stay in the same motel room.
8) How to Pay Bills
    a) Most bills can be paid once a month.
    b) Payments should be based on original invoices and supporting documentation, however. If payment is based on copies of original documentation, it can be easy to pay the same item twice.
    c) Invoices should be checked for accuracy before being paid.
    d) Payments should not be made from month-end statements. Typically, such statements do not include the details of products or services provided and are not an adequate basis for payment.
    e) When each check is written, the supporting document should be marked with "paid" as well as the date and check number.
    f) If someone other than the treasurer prepares the checks, the treasurer should review supporting documents before signing the checks.
    g) The supporting material should then be filed in a paid-bills file alphabetized according to payee.
    h) Checks should never be written payable to cash because it is essential to know how funds are used.
    i) It is acceptable to issue checks to petty cash, however, when replenishing that fund.

How to Approve Expenditures:

1. The approval process for expenditures
2. The approval of a departmental representative is required before an expense is paid.
3. Documentation of expenses. Every check should have some sort of written document to support it
    a. An invoice,
    b. Petty-cash voucher,
    c. Travel-expense report,
    d. Payroll time sheet.
    e. Written documentation may not be required in all cases, however. For example, a church may have a policy that no documentation is required for travel-related expenses of $75 or less (other than airfare or motels). This policy is reasonable and within guidelines of the IRS. In other cases, there may be a good reason why written documentation is not available. The treasurer should determine when the lack of documentation is acceptable. For example, an honorarium may be requested for a visiting speaker. A written check request indicating the date of the speaking engagement and the event would normally be sufficient. Or, a pastor may have lost an invoice for a ministry expense he or she paid out of pocket. If the amount paid is within reason, a written explanation of the item and why documentation is missing should be adequate.

Conducting an Internal Church Audit – Sample Procedure

The internal audit team must not be subject to control or influence by anyone who has responsibility for the financial accounts and records of the local church. There should not be even the appearance of a relationship that may dilute the perception of the independence of the auditor. For example, the treasurer, her husband or cousin should not conduct the audit. People who handle any of the church funds should not perform the audit. Neither should the pastor.

You do not need to be a CPA to conduct an internal audit. Generally, a person is qualified to perform a local church audit if he/she has some experience with accounting principles, bookkeeping, office management or accounting courses. Individuals must have the time to devote, have the initiative to follow through. They will have to contract asking banks and donors for information verifying financial data. They will need to complete the reports identified later in this booklet. Sometimes a small church will agree with another small church in the same area to have the treasurer of each audit the other. Often churches have accounting professionals in their congregations who may be willing to perform the audit (as long as they are not serving the church in any financial office).

If your church has annual receipts in excess of about $300,000, you should consider an external audit.

Church funds generally fall into three categories:

2) ~~1)~~ Undesignated or general fund

a) **This fund contains no restricted (designated) funds and the church can use the fund as it desires to carry out the purposes of the church. All unrestricted contributions, gifts and income should be recorded in this fund.**
   i) To qualify as a charitable contribution, gifts must be made "to or for the use of the church." The church must control the funds. If the giver intends for the gift to benefit a specific individual instead of supporting the ministry the church the gift is generally not deductible.
   ii) In establishing a policy, the church should keep in mind that Internal Revenue Service Publication 526 says one cannot deduct contributions to specific individuals even if they are needy or worthy of the gift. This includes contributions to a qualified organization like a church if indicated that the contribution is for a specific person. The Internal Revenue Service, in Publication 526, made a statement under the heading of disaster relief about designated (restricted) contributions to individuals stating, "You may deduct contributions earmarked for `Earthquake Disaster Relief or for other disaster relief organizations...However you cannot deduct contributions earmarked for relief of a particular individual or family."

b) **A word about church organizations, groups and classes collecting offerings**
Contributions designated to a **group or organization within the church** (i.e. Sunday school class) for the class' exclusive use and under its total control is **not a deductible contribution** to the church. (The class is not a 501(c)(3) organization.) The church cannot add this designated (restricted) contribution to a member's giving record because the church does not have any control over the contribution.

~~3)~~ ~~2)~~ Designated, unrestricted fund[34]

a) Designated unrestricted contributions are those that are not solicited by the church, but are made to the church with the **request**[35] by the donor that they be used for a specified purpose. If the purpose is an approved project or program of the church, the designation will not affect the deductibility of the contribution. If the donation is not an approved project or program of the church, the gift must be treated as a gift to the general fund in order to be deductible to the donor.
b) The church **may** honor the donor's request, but **is not legally bound by it.**
   i) The donor's gift must be made to or for the use of a qualified organization.
   ii) The church may redirect the funds as desired.
   iii) Members cannot deduct contributions to the pastor or staff that can be spent as the staff wishes unless the amount is added to the pastor or staff members' W-2 Form as income.

[34] Keith Hamilton, "Designated Fund Management," *Tax-Fax Up-Dates*, 2001, 1.
[35] The donor's gift must be made to or for the use of a qualified organization in order to be deductible. A designation cannot be allowed to direct the gift to a destination chosen by the donor and still be deductible.

iv) The Internal Revenue Service looks at the substance and not the form of a transaction as the controlling factor. Did the donor intend to make a contribution to the church or did the donor only intend to benefit the designated individual by using the church to obtain a tax deduction on an otherwise non-deductible gift?

c) **If the church does not intend to honor the request, it will be very wise to notify the donor before the church deposits the gift.**

~~4)~~ 3) *Designated, restricted fund*[36]

a) Designated restricted contributions are those that
   i) Are made to a church with the stipulation **by the church** that they be used for a specified pre-approved project or program of the church,
   ii) Where the church announced the intent to limit the use of the funds, and
   iii) The church overtly or tacitly implied that members should give to the fund.
   iv) If the purpose is an approved project or program of the church, the designation will not affect the deductibility of the contribution.
   v) Since the church imposed the restriction before receiving the gift, these funds may only be spent in the manner the church set forth. **It is imperative that the policy creating the fund specify the use of any remainder after the task is accomplished or in the event the project is called off.**

b) In essence, the church is agreeing to hold the designated, restricted funds in trust until the church carries out the donor's objective.

c) Restricted funds can be temporarily or permanently restricted.

What the audit will do

The audit should:

1) Independently verify the reports of the treasurer(s);
2) Follow the money and test how it is treated at different steps;
3) Document that donated and earned funds of the congregation have been used as stipulated by the donors.
4) The auditor will evaluate:
   a) Accounting controls (systems that reduce the possibility of loss or errors);
   b) Separation of duties (more than one person is involved in critical steps in handling money to provide checks and balances);
   c) Fairness of systems and procedures in the light of all factors, including the size of the church and its budget;
   d) Adequacy of insurance coverage;
   e) Systems for retaining and accessing meeting minutes that have financial implications (i.e., Stewardship Committee, Trustees, Deacons); and
   f) Records that show donors' requests for the use of gifts made to the local church.

The documents to be examined:

1) Financial Secretary;
2) Church Treasurer;
3) Trustees Treasurer;
4) Cemetery Fund Treasurer (if any);
5) Church Foundation or Endowment funds;
6) All treasuries or bank accounts maintained by a group using the same tax identification number as the church, including, for example, church school, daycare and others.
7) Copies of all church policies and procedures related to finance and copies of minutes approving those policies.
8) Copies of all the minutes from the stewardship committee, the trustees and other entities listed above.
9) Listing of all bank and investment accounts, including:

[36] Keith Hamilton, "Designated Fund Management," *Tax-Fax Up-Dates*, 2001, 1.

a) The person authorized to sign on each,
b) Any special use accounts under the control of and in the name of the church.

10) All financial statements for each month of the year, plus December of the prior year and January of the subsequent year (a fourteen-month period).
11) Bank and investment account statements for the same period.
12) Bank reconciliations for that same period.
13) Original books of entry, which will be the general and subsidiary journals; for those books that are computerized, a print-out of all transactions by account for the entire year.
14) All paid invoices, payroll data and Files (including 941's, year-end W-2's, 1099's and transmittal forms), income transmittals and deposit records for the fourteen month period.
15) The Financial Secretary's records and other income records for the same period.

Confidentiality

The person(s) conducting the audit may obtain access to confidential information and must treat that information accordingly. The auditor's work papers may contain confidential information. These work papers as well as all financial records should be retained for at least seven years in a secure, limited access, storage area.

Conducting the Audit

Preparation

After the books are closed for the year but before the audit begins, the auditor should prepare confirmation forms for banks, the State Board of Missions, the local association, insurance companies and donors. Those confirmations are essential for providing the auditor with independent verification of bank account balances, authorized signatures, monies sent to the State Board of Missions, the local association, for benevolence funds, special gifts, the coverage level(s) and related premiums for all insurance policies and, on a test basis, donor contributions.

Bank Confirmations

For each bank and investment account, the auditor(s) request the balance as of December 31, and a list of the person(s) authorized to sign on that account. See page 106 for a standard Form for obtaining this information.

State Board of Missions Confirmations

The auditor(s) should send a letter to the State Board of Missions in care of accounting services requesting confirmation the amounts received from the church for all causes. The request should specify a date by which the information should be returned and a stamped, addressed return envelope should be enclosed.

Association Confirmations

The auditor(s) should send a letter to the Association's Treasurer requesting confirmation the amounts received from the church for all causes. The request should specify a date by which the information should be returned and a stamped, addressed return envelope should be enclosed.

Donation Confirmations

The auditor(s) should randomly sample about one percent of those who give. Not more than ten givers need be sampled, but they should be selected randomly. The auditor(s) should make the selections. The treasurer or church officer should not suggest the donors to check.

A sample letter is provided on page 105 to use in seeking to confirm the amounts received from the donor and to identify the period for which the donation is recorded. Copies of year-end giving statements provided by the church to donors may be used to facilitate this process.

All of these confirmations are essential to the auditing process. Second requests may be required if confirmations are not responded to in a timely fashion. The responses should be addressed directly to the auditor, **not to the auditor(s) in care of the church.**

The Audit Begins

Auditing the Cash

The best place to start is with looking at the cash.

Every category of cash and all other invested funds must be audited at year end: bank and savings accounts, CD's held in the name of-the church, and any petty cash accounts held in the office of the church or elsewhere.

In order to proceed, the auditor(s) must have the list of all bank accounts and person(s) authorized to sign on each, a copy of all the financial statements for each month being audited, and the bank account statements and reconciliations for that same period.

Follow these steps:

1) Review the bank confirmations to see that the ending balance as stated by the bank is the same figure used in the December statement.
2) Check to see that the current authorized signers as listed by the bank are the same names listed in church records. If the lists fail to match, inform the treasurer, who should investigate any differences.
3) Review all bank reconciliations to see that the beginning balance of one month is the same as the ending balance of the previous month.
4) Note whether the book balance as listed on the bank reconciliation is the same balance presented on the financial statements.
5) Pick a month and actually perform a bank reconciliation for each account using the original books of entry, the financial secretary's records and any subsidiary journals. If you find a discrepancy between your reconciliation of the month and the reconciliation by the treasurer(s), research the discrepancy to find an explanation or an error.
6) The auditor(s) should independently count cash in all petty cash accounts. The count should agree with the books.
7) Review expense types for their appropriate charging to program area or administrative accounts. Ascertain suitableness and adherence to policies.

Income and Receipts

1) Determine if the deposits as listed by the financial secretary and the treasurer match those listed on the bank statement.
2) Verify, on a test basis, the deposits for Sundays during the calendar year using the following procedures:
   a) Test (a random sample, not to exceed 10 times; more if discrepancies are found) the counter's documentation versus the Sunday receipt deposit slips and bank statements. Review original book of entry for correct posting of Sunday deposits.
   b) Using the donor confirmations obtained as outlined above, determine whether the amount paid as reported by the donor is the same as recorded and received by the financial secretary. If there is a difference, research for a timing difference, inaccurate recording or some other explanation.
   c) Review the original books of entry to determine if other income has been recorded accurately (i.e., appropriate account, correct amount, unrestricted or designated vs. restricted, etc.). Trace the entries to the financial statements.

Disbursements

1) Review the minutes of:
   a) The Stewardship Committee and other committee minutes, as appropriate, for actions concerning disbursements.
   b) Reconcile those actions with any actual payments made.
2) Test to ensure that all of the disbursements have been properly authorized.
3) Review the original books of entry' and disbursements journal to ensure that all disbursements have been recorded appropriately.

4) For the insurance premium disbursements, check to see whether the amount disbursed is the same as that listed by the insurance company as premiums due.
5) Verify that income designated for special mission purposes has been distributed or allocated accordingly.
6) If there is a purchase order system, note whether the purchase orders have been authorized and approved by the appropriate person(s) and matched against the actual disbursement or invoice.

Payroll and Tax Records

1) Reconcile all payroll with tax records and tax payments made.

2) Verify that the appropriate amounts have been reported on the 941s, W-2s and 1099s.
3) Verify that the forms have been transmitted to the federal, state and local tax authorities on a timely basis.
4) Verify the existence of current W-4s, A-4s HH1s and I-9s for all staff.
5) The IRS views minister as an "employee".
    a) The church may not withhold Social Security for minister.
    b) Minister can request voluntary income tax withholding pursuant to a W-4 form.
6) Test that the appropriate amount of taxes has been deducted from the paychecks can be tracked back to the W-4 as submitted by each staff person.
7) If the church is not using an accountable reimbursement plan for the minister, or other staff, the appropriate allowances must to be recorded on the W-2 form issued by the church to the minister.
8) Track the payroll and tax records to the actual disbursements made, and recorded with the original books of entry.
9) If irregularities are found in any of the above, research to determine the nature of the error or cause.
10) Check personnel committee records versus payroll records to verify that correct salaries or rates have been paid.
11) If there are Church Retirement Plan tax deferred annuities (TDAs), Section 125 or other salary reduction agreements, verify existence of signed agreements and proper tax withholding applied.
12) Verify Church Retirement Plan contributions with GuideStone. If there is a salary reduction agreement, review documents for accuracy and verify that agreements have been approved in personnel committee or church minutes.
13) Verify that housing allowance agreements are in place and have been properly applied to reduce each minister's reportable 941 and W-2 income.

The Control System

The internal control structure for receipts and disbursements procedures must be reviewed regardless of the size of the church. The internal control structure is the process that assures the church's operational efficiency and effectiveness, that its financial reporting is reliable, that it is complying with the laws, and that its assets are safeguarded. The internal control process should be in place not just on paper but in actual operation.

Areas of concern that should be evaluated include:

1) Segregation of duties.
    a) Duties must be segregated among two or more persons, if possible.
    b) In very small membership churches this may be difficult, but it is rarely, if ever, impossible.
    c) Smaller membership churches should attain reasonable segregation under the circumstances. Here are some examples:
        i) The financial secretary and the church treasurer(s) should not be related.
        ii) These should be separate offices occupied by different individuals, who are not related by blood, marriage or employment relationships.
    d) The person(s) performing the audit should not be related to either the financial secretary or church treasurer.
    e) At least two persons should count the Sunday morning collections and they should not be related to each other nor should either one be the financial secretary or church treasurer.
    f) Receipt and disbursement functions should be performed by different people. (This may not be possible in small churches but is desirable.)
2) Authorizations for disbursements.
    a) Everyone who approves disbursements must be authorized to do so.
    b) The auditor(s) should look for resolutions and action in the minutes of the stewardship committee and the congregation that address authorizations.
    c) No check signers should be the authorizer of expenditures or the person who performs bank reconciliations.
    d) The auditor(s) should examine the checks to determine who is signing and compare the results found to bank authorizations.
3) Finance reports.
    a) Monthly Finance and Treasurers reports should agree with the general ledger and subsidiary journals.

b) Balances as of the first day of each month should be same as the last day of previous month.

4) Other Areas to Check:
   a) Does the church have fidelity bond coverage for people handling church funds (i.e., counters, financial secretary, treasurer, etc.)?
   b) Have decisions with financial implications made by church committees and the congregation been complied with appropriately?
   c) Are authorized signatures with banks up to date and complete?
   d) Are all checks signed by two people?
   e) Is the correct church employer identification number (EIN) on all accounts?
   f) Are investments made only by authorized persons?
   g) Are transactions recorded in the correct year?
   h) Are checks and cash stored in the church safe during the day?
   i) Are checks and cash deposited or placed in a bank night depository, and not taken to private homes or elsewhere until deposited?
   j) Are reports such as IRS Form 941, W-2s filed with appropriate authorities in a timely manner?
   k) Are payroll taxes being paid on time?
   l) Are computer software and data files backed up on a regular basis, and are back-ups kept off the premises?
   m) Do all appropriate persons have a clear understanding of and is there documentation on church ownership of software and data files?
   n) Is a current list of the contents of all safety deposit boxes maintained, and is a list of persons with authorized access maintained? (The auditor(s) should confirm the contents and confirm with the depository institution the persons authorized to access the box.).
   o) Are reports from the treasurer, financial secretary and business manager, if any, to the stewardship committee accurate, timely and complete enough to provide necessary information for the committee to make prudent decisions?
   p) Is the stewardship committee providing to the church's congregation (church council, leadership team) sufficient information to allow it to exercise its fiduciary' duties
   q) Are members of the stewardship committee and the congregation free to express opinions and to question management when appropriate?
   r) Are loan documents being read and complied with?
   s) Is there a current inventory of fixed assets?
      i) Is it kept current by entry of purchases and dispositions?
      ii) Has the auditor(s) verified the list?
      iii) Is there a process for control for fixed assets?
   t) Is there a policy on records retention, and if so, is it complied with?
   u) For a Church Audit Checklist see page 107.

The Audit Report

The audit is complete when the auditor(s) are reasonably assured that the financial records are in order, financial policies have been complied with, any discrepancies have been investigated and controls have been reviewed. With that assurance, the auditor(s) are ready to prepare the Audit Report for the stewardship committee.

The auditor(s) should meet with the stewardship committee to discuss the audit report, and should assure that the audit report, with any responses the stewardship committee may choose to add, is delivered to the congregation.

Sample Donation Confirmation Request Letter

January 14, 2022

Ima Givesalot
123 Main Street
Montgomery, AL 36111

Dear Mrs. Givesalot:

In connection with an examination of our accounts. [auditors name] we need to confirm your donation to [Church name] as of December 31. 2021

Donation in the Amount of $	intended for use in the general fund.
Donation in the Amount of $	intended for use in the building fund.
Donation in the Amount of $	intended for Lottie Moon International Missions.
Donation in the Amount of $	intended for Annie Armstrong North American Missions.
Donation in the Amount of $	intended for [etc]..

If the above information is consistent with your records, please sign the confirmation below and re**tu**rn it directly to [auditors address]. Do not send it to to the church. If your records do not confirm the above information, please not your exceptions below. A business reply envelope is enclosed for your convenience in replying.

Thank you,

B. Z. Body

Audit Committee Chairman

_____ _____

Name Date

Exceptions, if any:

Sample Bank Confirmation Form[37]

STANDARD FORM TO CONFIRM ACCOUNT
BALANCE INFORMATION WITH FINANCIAL INSTITUTIONS

Original
To be mailed to accountant

_____
Customer Name

Financial Institution
[ ]

We have provided to our accountants the following information as of the close of business on _____ regarding our deposit and loan balances. Please confirm the accuracy of the information, noting any exceptions to the information provided. If the balances have been left blank, please complete this form by furnishing the balance in the appropriate space below. Although we do not request nor expect you to conduct a comprehensive, detailed search of your records in the process of completing this confirmation, additional information about other deposit and loan accounts we may have with you comes to your attention, please include such information below. Please use the enclosed envelope to return the form directly to our accountants.

[ ]

1. At the close of business on the date listed above, our records indicated the following deposit account balance(s):

Account Name	Account Number	Interest Rate	Balance

2. We were directly liable to the financial institution for loans at the close of business on the date listed above as follows:

Account Number Description	Balance	Date Due	Interest Rate	Date Through Which Interest Is Paid	Description of Collateral

_____ _____
Customer's Authorized Signature Date

The information presented above by the customer is in agreement with our records. Although we have not conducted a comprehensive, detailed search of our records, no other deposit or loan accounts have come to our attention except as noted below.

_____ _____
Financial Institution Authorized Signature Date

_____
Title

Exceptions and or Comments

Please return this form directly to our accountants:

[ ]

[ ]

[37] Dennis Belton, "Adendum III," in *The Local Church Audit Guide* Second ed., (reprint, Nashville: The United Methodist Church, 2001), 36.

Church Audit Checklist

Date _____

Committee Members (Signature)

_____ _____

_____ _____

		Date Completed	Initials
( ) Reconciliation of Bank & Investment Accounts		_____	_____
( ) Operating Bank Account#	Month	_____	_____
( ) Bank Account#	Month	_____	_____
( ) Bank Account#	Month	_____	_____
( ) Are Bank Accounts Balanced Monthly		_____	_____
( ) Verification of Beginning and Ending Year Bal.		_____	_____

Bank & Investment

( ) Verification of account signatories		_____	_____
( ) Verification of telephone or other transfer		_____	_____
( ) Safe deposit box access checked		_____	_____
( ) Account balances confirmed by Bank/Company		_____	_____
( ) Name	Confirmation Sent & Returned	_____	_____
( ) Name	Confirmation Sent & Returned	_____	_____
( ) Name	Confirmation Sent & Returned	_____	_____
( ) Name	Confirmation Sent & Returned	_____	_____

Income

( ) Two unrelated persons counting		_____	_____
( ) Timely deposit of funds		_____	_____
( ) Transmittals checked against deposits		_____	_____
( ) Transmittals checked against postings to GL		_____	_____
( ) Verification other income processes		_____	_____
( ) Designated funds directed to restricted accounts		_____	_____
( ) Pledges recorded on donor records		_____	_____
( ) Confirmations sent to donors		_____	_____
( ) #sent _____	(Keep a list)	_____	_____
( ) #returned _____		_____	_____
( ) Differences researched & cleared		_____	_____
( ) Finance Secretary records reviewed		_____	_____
( ) Finance Secretary records agree with general ledger		_____	_____

Disbursements

( ) Invoices properly approved		_____	_____
( ) Check number and date noted		_____	_____
( ) Purchase order system, if applicable, working		_____	_____
( ) Accounts to charge noted on invoice		_____	_____
( ) Any invoices to vendors over 30 days in arrears		_____	_____
( ) Cooperative Program sent		_____	_____
( ) Association Offering sent		_____	_____
( ) Interest & service charges recorded		_____	_____
( ) Verification of checks at random		_____	_____
( ) General Ledger balances equal daily transaction		_____	_____
( ) Are restricted gifts kept in separate account		_____	_____
( ) Procedure in place to distribute gifts on a regular basis		_____	_____
( ) Designated gifts paid out timely		_____	_____

Reports

( ) Do reports provide complete picture _____ _____
( ) Are reports helpful to committee members _____ _____
( ) Do reports include approved budget _____ _____
( ) Over budget expenditure approvals in order _____ _____
( ) Are there controls for over expenditures _____ _____
( ) Policies for Restricted Funds reviewed _____ _____
( ) Restricted Funds used according to policy _____ _____
( ) Regular reports on giving to stewardship committee and pastor _____ _____

General Ledger

( ) Appropriate separation of restricted funds _____ _____
( ) Internal controls for receipts reviewed _____ _____
( ) Internal controls for disbursements reviewed _____ _____
( ) Other asset accounts reviewed _____ _____
( ) (equipment, buildings, contracts, etc.) _____ _____
( ) Accounts Payable reviewed _____ _____
( ) Accounts Receivable reviewed _____ _____
( ) Prepaid Expense account reviewed _____ _____
( ) Unearned Income account reviewed _____ _____
( ) Fund Balance from prior year correct _____ _____
( ) Correct Fund Balance carried into next year _____ _____

Administrative

( ) Church has Employer Identification Number _____ _____
( ) File for FIN & tax filings safeguarded _____ _____
( ) Incorporation papers are safeguarded _____ _____
( ) Deed to church property and/or mortgage are safeguarded _____ _____
( ) Insurance policies are safeguarded _____ _____
( ) Prior year insurance policies are safeguarded _____ _____
( ) Does church have separate bond for persons handling money _____ _____

Payroll

( ) Personnel files sorted by individual _____ _____
( ) Personnel files safeguarded and confidential _____ _____
( ) Salaries paid according to approval _____ _____
( ) Tax forms issued to clergy persons, employed persons & government _____ _____
( ) Payroll tax deposits made and timely remittances to government _____ _____
( ) Time sheets filed and approved (not by treasurer) _____ _____
( ) Employer benefits paid and current _____ _____
( ) Are there any salary reduction plans in effect _____ _____
( ) Did proper board/committee approve and is written documentation in file _____ _____
( ) Verification of amount paid to persons on contract/ honorarium _____ _____
( ) Proper approvals for persons paid on contract/ honorarium _____ _____
( ) 1099s filed for over $600 paid on contract _____ _____

Appendix

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Financial Q&A for the Bivocational Pastor

The number one financial question among Bivocational pastors is "Can all my income be in housing?" Answer: "Yes, if that is appropriate for your situation." The average Bivocational pastor in Alabama makes about $19,000 per year from their church. So for many it would be reasonable. Ministers should consider their particular situation as they make their request to the church.

The second question from Bivocational pastors: "Is there a limit to housing?" And many Bivocational churches mistakenly believe that there is a limit of 50% of income. Actually, there is no percentage limit; it can be up to 100% of income if appropriate.

There is a third question which should be asked, but rarely is. "Should I have 100% of my income as housing?" The best answer is "No, have some as taxable income so that you may participate in the Church Retirement Plan. (Participation in any retirement plan requires taxable earned income.)" This is the basic simple answer. Actually the church (employer) can in certain circumstances contribute more, but you must obtain a maximum contribution calculation from GuideStone to do so.

Be sure to have some of your income as taxable so that you can participate in the Church Retirement Plan. You will have the following advantages by participating:

1. Tax savings now and preparing for retirement
2. Extra benefits – survivor benefit; disability benefit. Possible contributions of up to $17.50 per month.
3. In retirement, you can receive a tax-free housing allowance from a denominational provider such as GuideStone. You cannot receive housing allowance from another mutual fund company.
4. Also, if the church budget is less than $75,000, you should apply for the Mission/Church Assistance Fund through GuideStone. You could receive an additional $50 contribution into your retirement account each month from GuideStone.

How should my income be reported?

Ministers who serve a church such as pastor should receive a W-2.

"If 100% is housing, do I need a W-2?" No, a W-2 is not required because there is no taxable income (for federal tax, of course there will be Self Employment tax.) The housing allowance could be reported to the minister in the form of a memo on church letterhead.

"If I have some taxable income, do I receive a W-2 or a 1099?" **W-2.** If you have any taxable income in addition to your housing allowance, you should receive a W-2.

"If I receive a bonus or love offering from the church, does that need to be included on the W-2? Yes.

Financial Reporting for the Bivocational Church

1. If the pastor is the only employee and has only housing, **no additional IRS forms** are required. The church could issue a memo statement on church letterhead for housing.

2. If the pastor is the only employee & has salary and housing

   Only a W-2 (and W-3, A-3)

1. If there are other employees such as a secretary
   a. 941 each quarter and corresponding AL form A-1
   b. W-2 (not a 1099)
   c. End of the year forms W-3, A-3

Year End Procedures

Based on an article in Church Finance Today by Richard Hammar

1. **Housing allowance.** New housing allowance should be approved in writing before first payment in 2022. May state "for 2022 and all future years until changed." May be changed at any time but not retroactive.

2. **W-4 forms.** December is a good time to complete new W-4 & A-4 forms. The withholding forms W-4 and A-4 should be completed each year. W-4 forms often become obsolete because of changes in an employee's circumstances. (Withholding is optional for ordained ministers). The IRS recommends that without a W-4 form the employees withholding should be Single and 0.

   Due to ID theft involving the tax return, employees should consider thinking of their withholding differently. It is wise to complete the W-4 with the goal of breaking even rather than a goal to receive a large refund.

   Salary Reduction Agreement. (now called Retirement Contribution Agreement). December is a good time to have employees complete Retirement Contribution Agreements for the Church Retirement Plan (These SRAs can be changed at any time). SRAs are kept at church not sent to GuideStone.

   Flexible Spending Accounts have only one time per year to make an election and may not be changed unless there exists certain kinds of family changes: marriage, birth, death, etc.

3. **Staff Christmas gifts or bonus.** These are taxable income: not a tax-free gift and must be reported as income on the recipient's W-2 form. A gift of property having a value so small "as to make accounting for it unreasonable or administratively impracticable" is a nontaxable "de minimis fringe benefit." See IRS Publication 15 B. This exception does not apply to cash or "cash equivalents" (i.e., gift certificates).

4. **Notice to donors.** Donors should be advised in the church bulletin or newsletter not to file their federal income tax return before they receive their contribution statement from the church.

5. **Handling end-of-year contributions.** Ways members meet the deadline:
   1. Physically received by the church by 12/31
   2. Postmarked by 12/31 or electronic transaction by 12/31

   - Review Financial Issues 2021, page 52 concerning substantiation
   - Review church policies concerning designated gifts
   - Consider an educational bulletin insert. Richard Hammar has an excellent one through www.churchlawtoday.com. Include:
     1. must be delivered or postmarked by December 31
     2. Giving ideas such as stocks, bonds or Qualified Charitable Distribution
     3. Giving ideas such as including the church in your estate planning
     4. Information about the church's policies about designated contributions

6. **Business expenses.** Caution: If you have an accountable reimbursement arrangement, distributing any balance in the reimbursement account to your employees at year-end makes all reimbursements for the year non accountable. If you do not have an accountable plan, this is the perfect time to begin one.

7. **Reclassification of Workers**. Now is the time to decide if you should reclassify any of your workers for tax reporting purposes. A minister who serves a church should receive a W-2. (See Financial Issues, page 7)

- ***IRS Voluntary Worker Classification Program.*** If the employer realizes that a worker has been misclassified as a contract worker, and wants to change the status, the IRS has a Voluntary Worker Classification Program. File Form 8952 at least 60 days prior to when you want to reclassify the employee and pay the calculated tax. Then begin treating the worker as an employee (at the beginning of a quarter).

8. **Voluntary withholding.** Ministers' wages are-exempt from withholding but may voluntarily have federal income tax and state income tax withheld by submitting a W-4. Never withhold and match FICA on an ordained minister.

9. **Order IRS tax forms and publications.** December is a good time to order your new copy of IRS Publication 15 (withholding tables), and copies of Forms *W-2,* W-3, 1099, and 1096 that you will be issuing. Call the IRS toll-free telephone number-1-800-TAX-FORM (1-800-829-3676). You can also download many forms directly from the IRS website (irs.gov).

10. **Do not close out 2021 until you have done the following:**
    - Make backups and place in secure location (this should be done on a regular basis)
    - Run general ledger reports
    - Review the W-2 information on pages 18-21 of Financial Issues 2021. If not entered into your computer system, calculate Group Term Life insurance taxable amounts. Calculate employee contributions to Church Retirement Plan to be prepared to enter in box 12.

    Box 12 W-2 Codes
    (commonly used in church situations. For more codes, see IRS W-2 instructions)
    - C – Group Term Life Insurance in excess of $50k or $2k for dependents
    - E – 403(b) contributions tax deferred
    - W – employer contributions to Health Savings Account
    - BB – Contributions Roth 403(b)
    - DD – Employer provided Health Insurance (optional for all but employers 250+)

11. **Check wage reports**
    - Suggestion: print out 941, W-2 and W-3 on plain paper. Check figures: Totals of 941 Federal Income Tax should equal total on W-3. Totals of 941 Social Security Tax and Medicare Tax should be double those reported on W-3

12. **Prepare for 2022**
    - Update Chart of Accounts to reflect new budget
    - Update financial software for withholding tables. If manual, obtain Circular E, Publication 15
    - After last payroll of 2021, update computer for 2022 payroll numbers

13. **Disability Insurance or Life Insurance as a multiple of income. Update staff salaries for 2022 with GuideStone**. This is very important because if not updated, the benefit would be based on the last reported salary.

14. **Deadlines**
    - **Note new W-2, W-3 and 1099 deadline for Federal and State – January 31**

- **Alabama A-6 monthly, if required.**
- **January 31. W-2.** Churches must issue W-2 to employees and to state and federal. Ministers serving a church must receive a W-2. See Financial Issues 2021, pages 18-21 for how to complete.
- **January 31. 1099-NEC. (**Get a W-9 to determine those to whom you give a 1099.) Issue 1099s for all non-corporations you have paid for services $600 or more. Do not use a 1099-MISC
- **January 31. Contribution Statements.** January 31st is a recommended date by the IRS, not a legal requirement.
- **January 31. 4th Quarter 941**. Do not file this form early. Wait to make sure there are no corrections. This can help to avoid filing a 941-X. Alabama A-1 is also due.
- **January 31**. Form 1095 to employees for Applicable Large Employers (50 or more FTE)
- **January 31. W-2 copy A and W-3 due**
- **February 28. Form 1094 for Applicable Large Employers**

15. Due Dates for 941s

- 1. January, February, March - April 30
- 2. April, May, June -July 31
- 3. July, August, September -October 31
- 4. October, November, December - January 31

16. More Deadlines

- **May 15 – Form 990-T** to report Unrelated Business income tax
- **May 15 – Form 5578** Certification of Racial Nondiscrimination. If your church has a school, preschool, daycare, etc. These May 15th dates are based on the fiscal year being the calendar year. Note: many churches will not file these.

17. Discard – use shredder

- Documents pertaining to IRS older than 7 years.
- Contribution statements older than 7 years
- Most banking documents older than 3 years
- Contribution envelopes 2020 or older; or if you prefer a 3-year schedule, 2019 or older.

18. Have historical documents microfilmed by the Samford University Library if you have not already done so.

Resources

- Church Finance Today. Richard Hammar. www.churchlawtoday.com
- www.ecfa.org
- NACBA Tax and Legal Update Webinar, December 2, 2010. Frank Sommerville. www.nacba.net
- Minister's Tax Guide by Richard Hammar. Available from GuideStone or Church Compensation Services.

Sample Counting Committee Report

Counting Committee Reporting Sheet

Date: _____ ( ) A.M. ( ) P.M.

	LOOSE		ENVELOPES		TOTAL
Coins	No.	Amount	No.	Amount	Total
$ 0.01					
$ 0.05					
$ 0.10					
$ 0.25					
$ 0.50					
$ 1.00					

Currency	No.	Amount	No.	Amount	Total
$ 1					
$ 5					
$ 10					
$ 20					
$ 50					
$ 100					

Subtotal	
Checks	
TOTAL	

Budget Offering	**Account No.**	**Amount**
Building Fund	GF001	
Amount Deposited To General Fund Bank Account (Acct. No. 001)		

Designated Offering	**Account No.**	**Amount**
Building Fund	BF001	
Mission Trip	M001	
Lottie Moon	M002	
Annie Armstrong	M003	
Amount Deposited To Special Fund Bank Account (Acct. No. 002)		

(1) Envelope Total must agree with the total to be posted to individual contribution records.
(2) The total amount deposited in both bank accounts must agree with the total of the TOTAL column.

Counting Committee Signatures

_____ _____

_____ _____

Received by Treasurer: _____ Date: _____

Sample Weekly Attendance Record

Weekly Attendance Record

Week of

Employee Name:

Insert number of hours for each activity under the appropriate day

	Wed	Thu	Fri	Sat	Sun	Mon	Tue	Total
Date								
Worked								
Holiday								
Vacation								
Sick Leave								
Family Death								
Excused Personal								
Leave w/o Pay								
Other								
Total hours accounted for								

Signed

Approved

Sample Manual Payroll Record

INDIVIDUAL PAYROLL RECORD

Name _____ Employee # _____

Address _____ City, State, Zip _____

Social Security # _____ Position _____ Telephone number _____

Regular Rate _____ Overtime Rate _____ Date Hired _____ Exemptions _____

		Total Hours										
	Pay period ending	Regular	O/time	Gross pay	Soc. Sec. w/h	Medicare w/h	Federal w/h	State w/h	Local w/h			Net pay
1												
2												
3												
4												
5												
Total												
1												
2												
3												
4												
5												
Total												
1												
2												
3												
4												
5												
Total												
Total quarter												
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2												
3												
4												
5												
Total												
1												
2												
3												
4												
5												
Total												
Total quarter												
Total page												

Sample Document Retention Schedule

Accident Reports/Claims (settled cases)	7 years
Accounts Payable ledgers/schedules	7 years
Account Receivable ledgers/schedules	7 years
Annual report (ACP)	Permanently
Audit Reports	Permanently
Bank Reconciliations	3 years
Bank Statements/cancelled checks	7 years
Biographical data (resume)	3 years
Business contracts/maintenance & supplies	5 years
Capital stock and bond records.	Permanently
Checks (cancelled – see next item)	7 years
Checks (cancelled for important payments: i.e. taxes, purchase of property, special contracts, etc, Checks should be filed with the papers pertaining to the underlying transaction)	Permanently
Church business meeting minutes	Permanently
Contracts:	
(expired)	7 years
(still in effect)	Permanently
Contribution envelopes	2-3 years
Contribution Statements	7 years
Correspondence (general)	2 years
Correspondence (legal and important)	Permanently
Deeds, mortgages, bills of sale	Permanently
Duplicate deposit slips	2 years
Employment applications/contracts	3 years
Equipment inventories	3 years
Financial Records to congregation	3 years
Financial Statements (year-end)	Permanently
Garnishments	7 years
General correspondence	3 years
General/private ledgers, year-end	Permanently
Historical records	Permanently
Insurance policies (expired)	Permanently
Insurance records, current accident reports, claims, policies, etc.	Permanently
Internal Audit reports	3 years
Inventories of products/materials/supplies	7 years
Invoices (to customers from vendors)	7 years
Job testing forms	3 years
Journals	Permanently
Legal records	Permanently
Master membership records	Permanently
Ministry organization records	3 years
Minute books	Permanently
Notes receivable ledgers/schedules	7 years
Pay and benefit plans (employer)	3 years
Payroll records/summaries	7 years
Personnel files	Permanently
Petty cash vouchers	3 years
Physical inventory tags	3 years
Promotion/demotion/transfer info	1 year
Property appraisals	Permanently
Property records	Permanently
Purchase orders	3 years
Record of contributions	7 years
Requisitions	1 year
Retirement records	Permanently
Stock and bond certificates (cancelled)	7 years
Tax returns and worksheets	Permanently
Tax records for employees	5 years
Terminations	1 year
Time cards/time sheets	3 years
Vouchers for payments to vendors, employees, etc. (includes allowances, reimbursements of employees for travel and entertainment expenses)	7 years
Withholding tax statements	7 years

Resources

Christian Resources

Alabama Baptist State Board of Missions, LeaderCare & Church Health,
Lee Wright 800-264-1225 ext 241, or direct line 334-613-2241 or cell 334-549-1383, lwright@alsbom.org
Church Compensation Services – www.alsbom.org/ccs Church Staff Compensation Study, events, blogs
Pinnacle Alabama – www.pinnaclealabama.org Click on View Past Webinars
One Great Sunday – www.onegreatsunday.org – Click on Archive, then 2018, then Finance.
Facebook - Follow the State Board of Missions on Facebook or Twitter for news, events, etc.

Church and Clergy Tax Guide 2021 by Richard Hammar, Christianity Today.

Church Law Today – www.churchlawtoday.com

ECFA Home Page – www.ecfa.org

GuideStone – www.guidestone.org
GuideStone financial resources - www.guidestone.org/compensationplanning

The Church Network (formerly National Association of Church Business Administrators) –
https://thechurchnetwork.com/

Government Resources

IRS - *www.irs.gov*

IRS telephone numbers

• General information	800-829-1040	"Avoid this one!" – Gene Hill, CPA, Austin, TX
• Tax forms and publications	800-829-3676	
• Form 941 Help Line	800-829-4933	
• Forms 1099, W-2 & W-3 Help Line	866-455-7438	
• Exempt Organization Help Line	877-829-5500	Excellent resource

IRS Publications

15	Circular E, Employer's Tax Guide
15-A	Employer's Supplement Tax Guide
15-B	Employer's Tax Guide to Fringe Benefits
463	Travel, Entertainment, and Car Expense
509	Tax Calendars
517	Social Security Information for Members of the Clergy and Religious Workers
525	Taxable and Nontaxable Income
526	Charitable Contributions
533	Self-Employment Tax
557	Tax Exempt Status for Your Organization
598	Tax on Unrelated Business Income of Exempt Organizations
1771	Charitable Contribution Substantiation
1828	Tax Guide for Churches and Religious Organizations
4302	A Charity's Guide to Vehicle Donations

Department of Labor – www.dol.gov
Social Security Administration – www.ssa.gov/employer
Alabama Department of Industrial Relations – http://dir.alabama.gov
Alabama Tax Information and Forms – www.revenue.alabama.gov